# Public Utilities

## FORTNIGHTLY

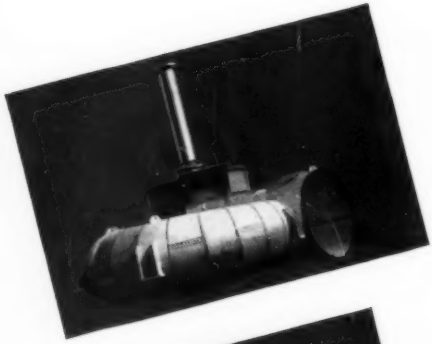
Volume LII No. 1 July 2, 1953

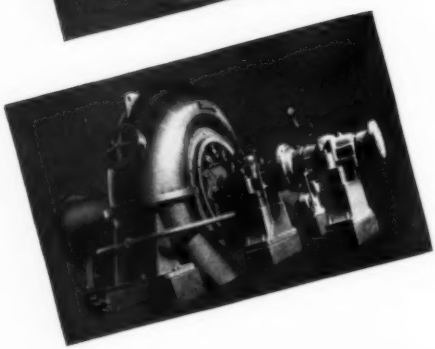


PUBLIC UTILITIES REPORTS, INC., PUBLISHERS

# LEFFEL Hydraulic Turbines

## . . . a standard of quality since 1862





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# Public Utilities FORTNIGHTLY

VOLUME LII JULY 2, 1953 NUMBER 1



## ARTICLES



## FEATURE SECTIONS



PUBLIC UTILITIES FORTNIGHTLY.. stands for Federal and state regulation of both privately owned and operated utilities and publicly owned and operated utilities, on a fair and nondiscriminatory basis; for nondiscriminatory administration of laws; for equitable and nondiscriminatory taxation; and, in general—for the perpetuation of the free enterprise system. It is an open forum for the free expression of opinion concerning public utility regulation and allied topics. It is supported by subscription and advertising revenue; it is not the mouthpiece of any group or faction; it is not under the editorial supervision of, nor does it bear the endorsement of, any organization or association. The editors do not assume responsibility for the opinions expressed by its contributors.

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# Pages with the Editors

WE are always glad to get requests for reprinting (with credit, of course) of excerpts from material originally published in PUBLIC UTILITIES FORTNIGHTLY. When this occurs, we usually request copies of the reproduction so as to check the accuracy of quoted material, etc., for the protection of our authors and the copyright owners.

WE recently had a request which stumped us somewhat. It was from a friendly and faithful reader in Tokyo who is an executive official of the Japan Electric Association. He wanted to reprint an article which appeared in our first issue of 1953 concerning the Washington outlook for public utilities.

PERMISSION was granted in the usual way, but when the monthly magazine of the Japan Electric Association, containing a reprint, came to our desk, we realized for the first time that our article had been translated and printed in Japanese characters! This is very flattering, of course. But after a hasty check on the lingual capabilities of our staff and associates, we decided to take the accuracy of reproduction for granted. Our greetings to the Japan Electric Association and its monthly magazine. It looks like a very nice printing job, as far as we can see.

CHARLES TATHAM, JR.

FRED A. HARTLEY, JR.

* * * *

WE have been hearing a lot recently about "cost of capital," as a measure of the fair rate of return for regulated public utilities. In this issue our leading article analyzes an alternative measure which has largely escaped the attention it deserves in recent years. That is the return offered investors by other investments of comparable risk. With some recent decisions questioning the value of "cost of capital" as an exclusive criterion of return, this analysis should be a timely one for utility management people and regulators alike.

CHARLES TATHAM, JR., author of the article entitled "The Forgotten Factor in Fair Return," is the vice president of Institutional Utility Service, Inc. Educated in Switzerland and at Harvard College, he started in the investment counsel business in Boston in 1928, and subsequently worked for the Central Hanover Bank & Trust Company, as utility analyst. In 1934 he joined his present organization, which provides a comprehensive investment service covering financial and operating statistics of gas and electric utilities.

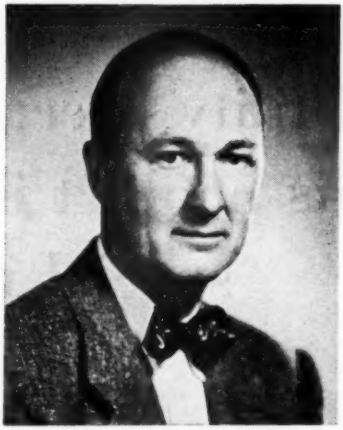
OUR next article (beginning on page 12) discloses the misunderstanding which the general public often has concerning public utility rates and earnings. Actually, rate increases to keep up rates along with other modern costs have very little effect on the cost of living of most individuals. FRANK C. SULLIVAN, public relations counselor of San Francisco, shows us how utility rate increases have unfortunately become political footballs instead of generally understood phenomena of the current inflation. MR. SULLIVAN was educated as a lawyer in Montana and worked on a number of western newspapers.

* * * *

ORIGINALLY announced for publication in our June 18th issue, the article appearing on page 20 is by the coauthor of the Taft-Hartley Act, former REPRESENTATIVE FRED A. HARTLEY, JR., of New Jersey. It was deferred until this issue because of the rapidly changing picture on Taft-Hartley amendments in Congress, which has now stabilized.

MR. HARTLEY is a native of Harrison, New Jersey. He was educated at Rutgers University and elected at the age of twenty-five to his first term in Congress in 1928. He served for twenty years in the House of Representatives as a member of the House Labor Committee. He now maintains an office in Washington as a consultant to industry and labor on

GEORGE JACKSON EDER



FRANK C. SULLIVAN

legislative and departmental matters. He continues to lecture throughout the country on labor-management relations, a subject on which he is an acknowledged authority. MR. HARTLEY is author of a book *Our New National Labor Policy*.

* * * *

THIS is a good time to present various views on utility pension plans. In the March 26th issue of PUBLIC UTILITIES FORTNIGHTLY there was a suggestion for making the pension compensation more elastic by use of common stock investment. Now comes GEORGE JACKSON EDER, assistant general attorney for the International Telephone & Telegraph Company, with a different idea.

MR. EDER is an economist as well as attorney, and a veteran of World War I. He served as chief of the Latin American section of the Commerce Department under Herbert Hoover, and as manager of an American investment firm in Argentina. In his capacity as attorney, he has handled telephone rate cases for the past fourteen years in the United States, Latin America, and Japan.

THE next number of this magazine will be out July 16th.

The Editors

# Coming IN THE NEXT ISSUE

★

### PUBLIC RELATIONS NEEDS OF THE TELEPHONE INDUSTRY

There are many reasons why public relations efforts must be continued and perhaps expanded to gain for the telephone business the understanding of the public as well as that of the immediate public officials whose task it is to pass officially on the fairness of rate increases. The author, Charles F. Mason, speaks with authority for the industry, particularly for its independent (non-Bell) segment. He is president of the California Independent Telephone Association and chairman of the board of directors of the General Telephone Company of California, one of the larger independent telephone companies.

### HIGHER FINANCING COSTS FOR UTILITIES

This article makes a fine contribution to the financing problems of utilities in relation to return allowances. The author discusses the closely controlled government bond market which resulted in suppression of interest rates and the encouragement of inflation. Its end, he states, was a good thing for the country. The quality of present sources of new investment capital for utility expansion is carefully analyzed by the author. His thoughtful comments upon interest rates and new demands for their reduction will attract wide attention. He concludes with a discussion of the impact of the changing investment climate on utility regulation and urges a review of what is to be considered as a fair rate of return. The article is another fine example of penetrating thought from the pen of Fergus J. McDiarmid, second vice president of The Lincoln National Life Insurance Company of Fort Wayne, Indiana.

### THE CINCINNATI TRANSIT STORY

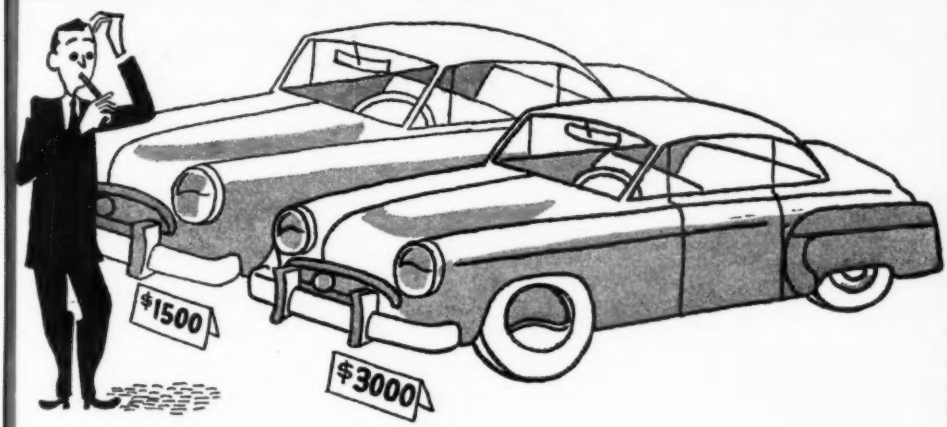
George W. Keith, free-lance writer and shrewd observer from Cincinnati, presents another of his incisive writings on the transit scene in the July 16th issue. In this intimate article on the transit system in his native city, Keith underlines the problems faced and the solutions applied. Cincinnati is chosen because it has a 25-year record of transit regulation without municipal domination. The record cited is a tribute to private ownership and operation of urban transportation.

### I AM A UTILITY HIGH LINEMAN

Henry F. Unger has written for the FORTNIGHTLY another of his personal interviews with a utility employee. In this entertaining interview, Unger tells the story of a skilled utility worker who installs the lines on 70-foot-high towers so that service may be brought to residential areas, industrial plants, and agricultural communities. In this account the importance of bringing to work certain personal qualities, as well as tools, is underlined. The advantages of this position and the personal liking for it, are given the attention which only a man familiar with the job can contribute.

★

**Also . . . *Special financial news, digests, and interpretations of court and commission decisions, general news happenings, reviews, Washington gossip, and other features of interest to public utility regulators, companies, executives, financial experts, employees, investors, and others.***




# Identical — except the cost!

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On the other hand, when you turn over the task to us, we can complete the job for you in a much shorter period of time. That's because we have automatic accounting equipment that's especially designed for the purpose. You get identical figures—at half the cost!

Would you like a copy of "The One Step Method of Bill Analysis?" We shall be glad to send you a copy which tells more about this efficient method.

*P.S. If you use punched cards for billing, we are also equipped to make your analyses from them.*

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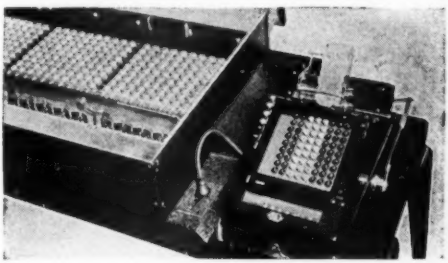

## Recording and Statistical Corporation

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# Remarkable Remarks

*"There never was in the world two opinions alike."*
—MONTAIGNE

---

DOUGLAS MCKAY
*Secretary of the Interior.*

"In business if we don't treat people right, they take their business elsewhere."

CHARLES F. KETTERING
*Scientist.*

"One of the things we have to be thankful for is that we don't get as much government as we pay for."

LELAND I. DOAN
*President, Dow Chemical Company.*

"There is far and away too much talk about recession. Let's get off that tune and turn the record over."

H. BRUCE PALMER
*President, Mutual Benefit Life Insurance Company.*

"Strip modern man of his incentive to provide adequately for himself and his family and modern man will quickly become ungodly and amoral."

W. RANDOLPH BURGESS
*Deputy to the Secretary of the Treasury.*

"We're so tough in this country we've been able to stand poor money policies for years, but we have paid for it in the diminished value of our dollars."

JOHN J. MANN
*Chairman of the board, American Stock Exchange.*

"[The excess profits tax is a] prize example of an unjust and discriminating tax that has clearly proved itself a deterrent to business growth and initiative."

SINCLAIR WEEKS
*Secretary of Commerce.*

"When tax money stops going to pay for weapons and the waste of war, it will be spent by the public for the things the ingenuity of management can produce."

DAVID E. LILIENTHAL
*Former chairman, Atomic Energy Commission.*

"My own suggestion is essentially this: That we apply to the atomic energy field the same security standards . . . as are applied by the military services with respect to other arms research."

C. HAMILTON MOSES
*Chairman of the board and president, Arkansas Power & Light Company.*

"Our people's future is not all a bed of flowers. Our citizens have been gradually surrendering their liberties in return for doles. Our states have exchanged their sovereign powers, bit by bit, for various types of political pottage. True, we were told that these rights were being surrendered in the interest of national defense, and that victory would see them returned. Eight years have passed since 1945, and not a single right has been returned to a single state."

# Where dependability counts, you'll find Dodge!

Public utility trucks must be ready to *go* . . . night or day, rain or shine, come hail or high water. More and more utilities, like Southern California Edison, are using Dodge "*Job-Rated*" trucks.

Dependability is a big red MUST with Dodge. You'll find it in such features as moistureproof ignition system, high-torque capacity starting motors, positive-pressure lubrication system.

You'll get long life, too, thanks to deep, broad-shouldered frames, shot-peened rear axle shafts, extra-long alloy steel springs.

What's more, Dodge offers a wide range of engines with 4-ring pistons, chrome-plated top rings, exhaust valve seat inserts . . . ease of handling due to short wheelbase and wide front tread . . . real driver comfort from chair-height seats, greater visibility, big positive brakes.

There's a Dodge "*Job-Rated*" truck to meet your needs. See your friendly Dodge dealer today.

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*Director, development department, E. I. du Pont de Nemours & Company, Inc.*

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KARL KOERPER
*Vice president, Kansas City Power & Light Company.*

"Any organization—whether radio station, or insurance agency, or bank, or store, or electric company—that has lost its sales instinct is already on the way out. It's already headed for bankruptcy, either financially or morally, or both, but doesn't recognize it."

FRANK W. ABRAMS
*Chairman of the board, Standard Oil Company of New Jersey.*

"Management, as a good citizen, and because it cannot properly function in an acrimonious and contentious atmosphere, has the positive duty to work for peaceful relations and understanding among men—for a restoration of faith of men in each other in all walks of life."

ARTHUR HARRISON MOTLEY
*President, Parade Publication, Inc.*

"Better products and better productivity have contributed to better living in America. Better selling can make a further contribution to better living and by moving into useful consumption the enlarged capacity of our farms and factories can assure us of a continuing high level of employment and prosperity in peace."

CRAWFORD H. GREENEWALT
*President, E. I. du Pont de Nemours & Company, Inc.*

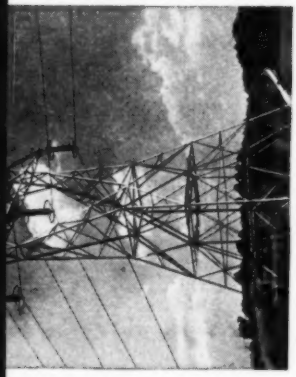
"As one last reminder, don't forget the telephone, which we are told by Moscow was invented by a Russian. If it were so, I would welcome it in support of my thesis, for there are far more telephone subscribers in the city of Chicago than in all the Soviet Union. Clearly Russia suffers from a dearth of executives, or perhaps the executives have appropriated all the telephones."

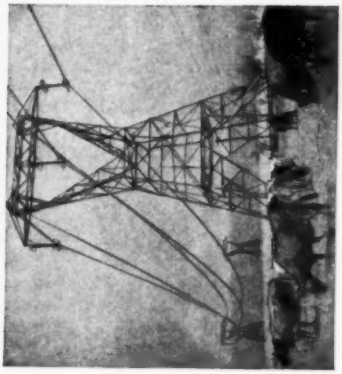
LAURENCE F. LEE
*President, Peninsular Life Insurance Company.*

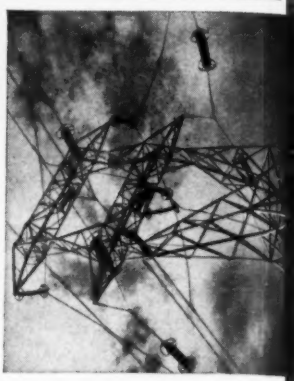
"Private enterprise has earned a right to use a natural resource with reasonable government supervision, but a minimum of government interference. Natural resource industries have exhibited an ability and a will to manage their holdings wisely—and for the public good. We have reached a point where these industries would be regarded in their proper light—as the creators of goods and jobs—not as despoilers or exploiters."

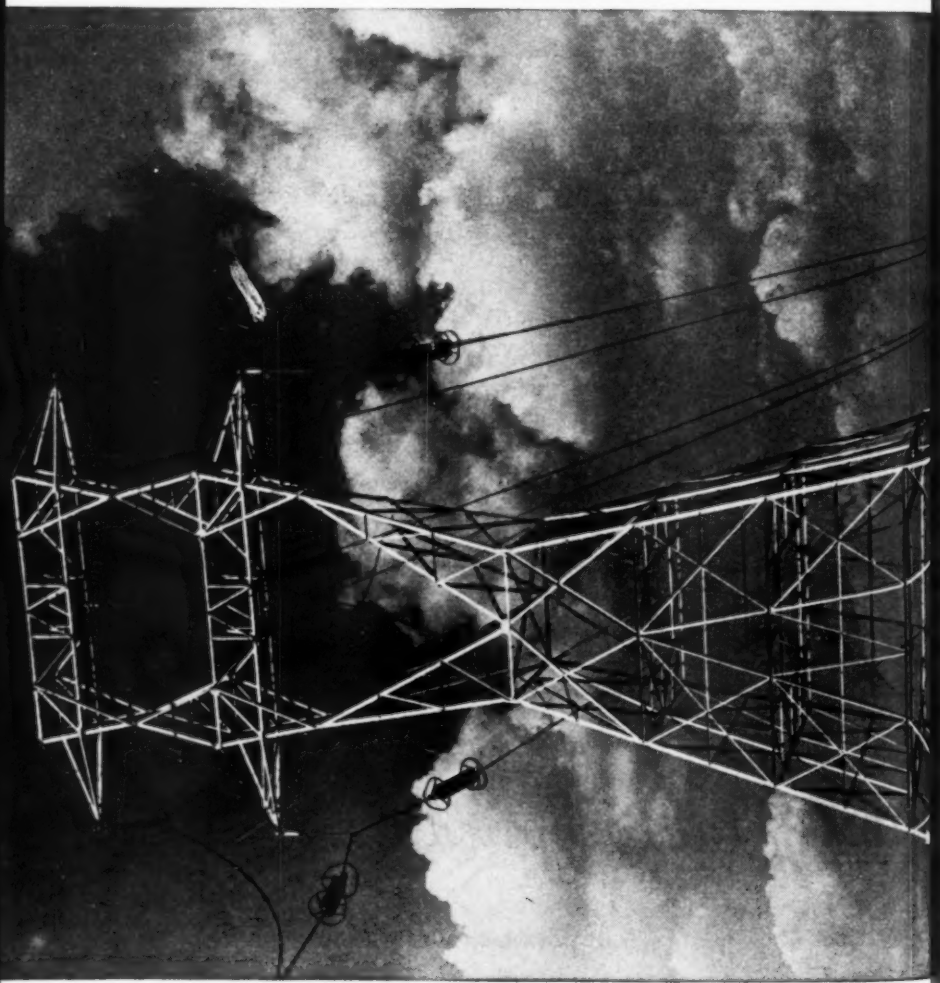
BEN MOREELL
*Chairman of the board, Jones & Laughlin Steel Corporation.*

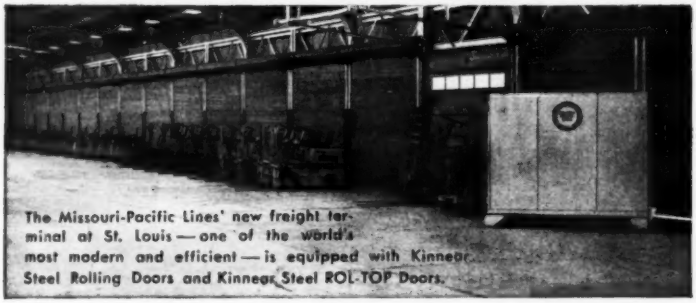
"We must always remember that our Constitution was designed to protect the freedom of the smallest possible minority. That single idea of inalienable rights of the individual person is—or, at least, was—the fundamental spirit of the American tradition of government. And if we lose that concept of government, by force or by our own votes, the American dream of liberty will be ended. And we will not be any the less Communist merely because the majority favors it."











The Missouri-Pacific Lines' new freight terminal at St. Louis — one of the world's most modern and efficient — is equipped with Kinnear Steel Rolling Doors and Kinnear Steel ROL-TOP Doors.

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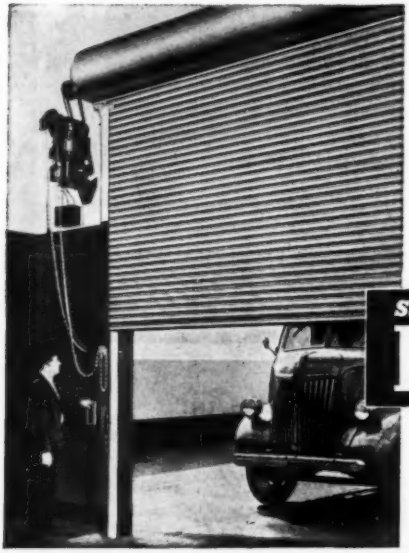

Kinnear Rolling Doors are tailored to fit any opening, in old or new buildings. Kinnear Motor Operators are also available, for push-button control. Write today for complete information.

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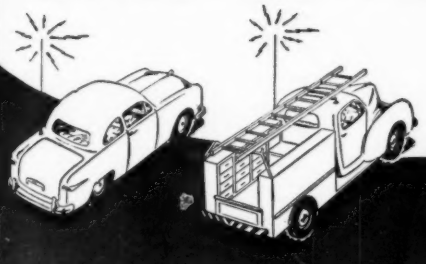

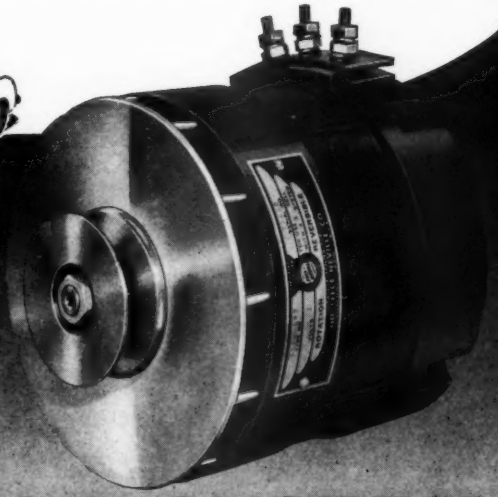

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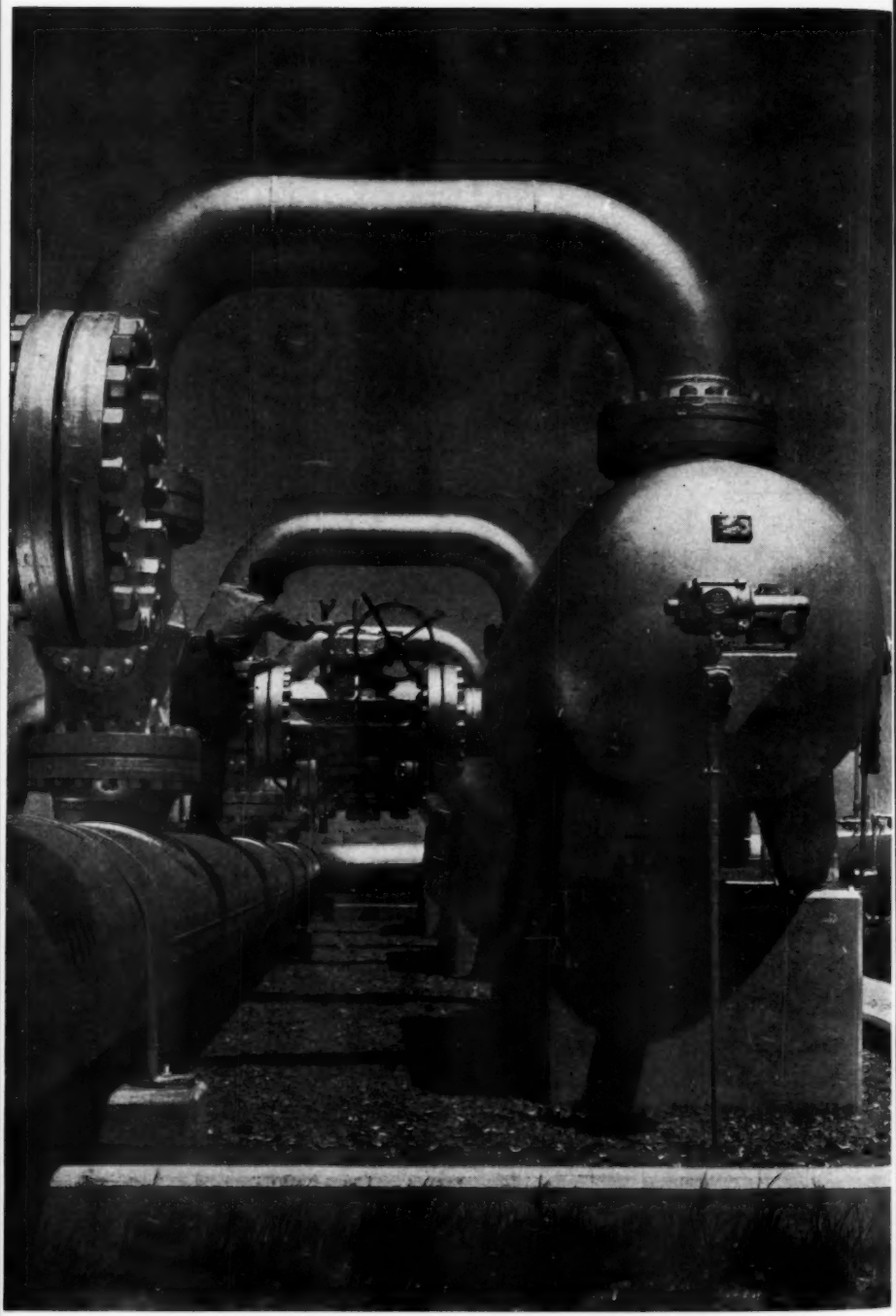
TRUCK BUS DIESEL OFF-HIGHWAY PASSENGER RAILROAD MARINE INDUST

# Utilities Almanack

## July

| | | |
|---|---|---|
| 2 | Th | ¶ *American Society of Mechanical Engineers ends semiannual meeting, Los Angeles, Cal., 1953.* |
| 3 | F | ¶ *American Society for Testing Materials ends annual meeting Atlantic City, N. J., 1953.* |
| 4 | Sa | ¶ *Edison Electric Institute, Industrial Relations Committee, and Wisconsin Utilities Association, Personnel Section, will hold meeting, Green Bay, Wis., July 17, 1953.* |
| 5 | S | ¶ *Tennessee Liquefied Petroleum Gas Association will hold convention, Nashville, Tenn., July 19–21, 1953.* |
| 6 | M | ¶ *American Trade Association Executives will hold annual meeting, Atlantic City, N. J., July 20–22, 1953.* |
| 7 | Tu | ¶ *Western Summer Radio-Television and Appliance Market will hold western merchandise mart, San Francisco, Calif., July 20–24, 1953.* |
| 8 | W | ¶ *Kentucky Liquefied Petroleum Gas Association will hold annual convention and trade show, Louisville, Ky., July 26–28, 1953.* |
| 9 | Th | ¶ *International Association of Electrical Leagues will hold annual meeting, San Francisco, Cal., Aug. 5–8, 1953.* |
| 10 | F | ¶ *American Transit Association will hold annual convention, Los Angeles, Cal., Aug. 10–12, 1953.* |
| 11 | Sa | ¶ *Ohio Rural Electric Co-operative, Inc., will hold meeting, Columbus, Ohio, Aug. 24, 25, 1953.* |
| 12 | S | ¶ *Appalachian Gas Measurement Short Course will be held, West Virginia University, Morgantown, W. Va., Aug. 24–26, 1953.* |
| 13 | M | ¶ *National Housewares and Home Appliance Manufacturers exhibit begins, Atlantic City, N. J., 1953.* |
| 14 | Tu | ¶ *American Institute of Electrical Engineers will hold Pacific general meeting, Vancouver, British Columbia, Canada, Sept. 1–4, 1953.* |
| 15 | W | ¶ *Electrical Equipment Representatives Association begins summer meeting, Glenwood Springs, Colo., 1953.* |



## A "Washing Machine" for Natural Gas

*A Texas Eastern Transmission Corporation employee checks a scrubber valve at a compressor station where an oil bath removes gas impurities.*

# Public Utilities
## FORTNIGHTLY

VOL. LII, No. 1 JULY 2, 1953


# The Forgotten Factor In Fair Return

*Preoccupation with the so-called "cost of capital" has led to almost complete neglect of a much more logical measure of fair return for regulated utilities. This factor in return determination, which in recent years has been largely lost sight of, is the return offered investors by other investments of comparable risk.*

BY CHARLES TATHAM, JR.*

THERE would seem to be two principal reasons for neglecting comparable risk as a measure of the reasonableness of the fair rate of return for regulated utilities: (1) the apparent difficulty in selecting such other investments; (2) the seeming precision offered by the alternative "cost of capital" approach.

In respect to the first reason, the difficulties are more apparent than real, if the matter is approached in proper perspective. In regard to the second, the seeming precision is an illusion. The fact is that over-all cost of capital *cannot* be measured with any precision. The cost of debt service requirements can, of course, be measured in exact dollar amounts, since interest payments represent fixed contractual obligations. Preferred stock dividends, likewise, are predetermined as to annual requirements. The neces-

*Vice president, Institutional Utility Service, Inc. For additional personal note, see "Pages with the Editors."

sary earnings on the common stock, however, cannot be known with any certainty in advance. We can only be guided by what earnings on average in the past have induced common stock investment.

At this point it should be asserted and emphasized that the *earnings-price ratio* does not and cannot by itself measure the cost of common stock capital. This ratio measures only the relationship between earnings and market price. It does not measure the relationship between earnings and the common stock capital actually invested in the business—that is, the book value of the equity—and it cannot be used as a guide to what this relationship should be.

It is indeed strange how this error has been perpetuated. For example, in testifying before the California commission last year, a well-known economist stated, "I define the cost of equity money as the rate at which expected earnings are capitalized." As a guide to this he used an average of market capitalization rates over a period of years.

It would seem clear, however, that a much more accurate definition would be "that rate of return on invested equity capital (book value) which produces the indicated necessary return (based on average earnings-price ratios) on new capital committed by investors."

Market prices are almost invariably higher than book values, frequently by substantial margins. Thus, if a common stock is selling at $50 a share and is earning $4.50 a share, the earnings-price ratio is 9 per cent. However, if the book value of the stock is $35 a share the earned return on book is 12.9 per cent and at least this rate of earnings is presumably necessary at the time to maintain the market price at $50.

It would be completely incorrect to apply the 9 per cent earnings-price ratio to the book value and say that the resultant $3.15 of earnings are adequate. The effect would be a sharp reduction in the market value of the stock.

Presumably, the theory is that the earnings-price ratio, which indicates earnings of $4.50 per share, will attract *new* capital at $50 a share. Or, in other words, that additional common stock capital will enter the business if it can reasonably expect a return of 9 per cent. Under normal conditions this may well be true. But, the 9 per cent return must be on the *price* paid for the stock by the new investor; that is, on the dollars of capital that he has contributed.

It is a fact, however, that the price he has paid for his stock does not measure his proportionate interest in the total dollar equity. The new investor's share of the dollar equity is measured by the number of shares he owns multiplied by the book value per share. The fact that he has paid more than book value really means that he has made a capital contribution for the benefit of all the other common stockholders. He certainly would not do this if he knew that he was to receive only 9 per cent on his thus diminished capital.

Actually, the new investor is expecting a return on book value which will produce a 9 per cent re-

turn on the price he paid for the stock. In the above example, if he pays $50 a share for the stock, he will expect earnings of $4.50, or 9 per cent. If the book value is $35 per share, the required earnings amount to 12.9 per cent on the book value.

It seems obvious that as long as regulation uses the dollars of investment as the rate base, the percentage required return on common stock capital cannot be measured or indicated by the earnings-price ratio. It will always be some higher figure.

If this argument is sound, the question naturally arises as to why expert witnesses in rate cases ever adopted the earnings-price ratio for this purpose. The answer would appear to be that it first began to be used in a period of generally low market prices, when many of the leading utility stocks were selling at or close to book value.

To the best of our knowledge, the first important rate case where a composite "cost of capital" approach was specifically adopted was that involving Washington Gas Light Company in 1943.[1] In this case the commission, in its opinion dated November 8, 1943, pointed out that this approach to a determination of fair return was "particularly well adapted to the sliding-scale arrangement in effect in the District of Columbia," which provided for annual review of operations and prompt adjustment of rates to changed conditions. The commission considered earnings-price ratios and dividend-price ratios as "among the principal factors which have a distinct, although not necessarily a controlling, influence" upon the determination of the necessary earnings for the common stock.

However, among other pertinent factors, the commission pointed out that "the earnings-price ratios of the company's common stock were predicated upon prices which, at least currently, closely approximate the book value of such stock." The commission also stated that it had "for the purposes of its calculation, substantially increased the equity applicable to common stock above the amount reflected on the books of the company."

Again, in an opinion dated July 22, 1944, reducing rates of Potomac Electric Power Company, the District of Columbia commission adhered to this approach, again pointing out that it was particularly well adapted to the sliding-scale formula.[2]

The following year the composite "cost of capital" method was used by the Michigan commission in a case involving Detroit Edison Company, opinion dated May 22, 1945.[3] In re-

[1] *Re* Washington Gas Light Co. 53 PUR NS 321.

[2] *Re* Potomac Electric Power Co. 55 PUR NS 65.

[3] Detroit *v.* Detroit Edison Co. 59 PUR NS 1.

¶ "It *seems obvious that as long as regulation uses the dollars of investment as the rate base, the percentage required return on common stock capital cannot be measured or indicated by the earnings-price ratio. It will always be some higher figure.*"

spect to the cost of equity capital the company's witness employed median earnings-price ratios and dividend-price ratios, based upon 1943 earnings, dividends, and average monthly prices, of "seven high-grade public utility common stocks."

It should be mentioned that market prices in 1943 were generally low and a number of the top-grade utility common stocks were selling below book value.

Despite these instances, the use of earnings-price ratios as a measure of equity capital cost did not really become fashionable until subsequent to 1946, when the postwar inflation necessitated an increasing number of applications for rate increases. This also was a period of relatively low prices for utility common stocks, which would appear to be the reason why the method seemed acceptable. Many stocks were selling close to book value and a majority were priced at low multipliers of earnings. In other words, earnings-price ratios, increased by financing costs, gave a satisfactory result, in terms of per share earnings, when applied to book value.

However, when market prices began to rise to levels more nearly normal in relation to book value the fallacy of the earnings-price ratio as a measure of the cost of common stock capital should have become apparent.

It should also be kept in mind that "cost of capital" is not synonymous with fair or reasonable return. Cost of capital, within the necessarily indeterminate area of its computation, represents little more than the confiscatory level below which the return is constitutionally inadequate. This was clearly expounded by Justice Brandeis in his concurring opinion in the Southwestern Bell Telephone Case, when he said, "The compensation which the Constitution guarantees an opportunity to earn is the reasonable cost of conducting the business. Cost includes not only operating expenses, but also capital charges."[4]

He then defined capital charges and stated that "a rate is constitutionally compensatory if it allows to the utility the opportunity to earn the cost of service as thus defined." This would appear plainly to mean that anything less would be confiscatory, and this interpretation is supported by his subsequent statement that "the reasonable rate to be prescribed by a commission may allow an efficiently managed utility much more."

This same conclusion was voiced by the committee on valuation of the National Association of Railroad and Utilities Commissioners in its 1946 report. The committee pointed out the need of an allowance for risk in the permitted return "in addition to the proper actual cost of money." The committee stated:

> An element of risk remains in a utility business even if the utility's capital investment is surrounded with safeguards . . . The regulating commission is and should be prepared to recognize that element and make allowance for it in utility rates. Such allowance is made, of course, by the margin of the rate of return above the cost of money in the money market at the time of the rate inquiry or, expressed in legal language, the fair rate of return above the point of legal confiscation.

[4] Missouri ex rel. Southwestern Bell Teleph. Co. *v.* Public Service Commission, 262 US 276, PUR1923C 193.

Return for a Regulated Enterprise

*"A PRIMARY purpose of regulation is to introduce into a field of practical monopoly those safeguards which elsewhere protect consumers through the impact of competition. The return allowed on the capital of a regulated industry must, therefore, not exceed that achieved by competitive enterprise; if it does, the cost to consumers of the service will be excessive."*

The committee went on to say, "We think that commissions should not be niggardly in allowing for this differential."

It is quite clear that the committee on valuation identifies the cost of capital with "the point of legal confiscation" and defines a fair rate of return with some higher figure.

If cost of capital is to be taken as merely measuring the lower boundary of fair return, what guides are there to the higher area of reasonableness? This question cannot be answered without some sort of yardstick.

MR. JUSTICE Jackson, in his separate opinion in the Hope Natural Gas Case, said:[5]

> We need not be slaves to a formula, but unless we can point out a rational way of reaching our conclusions they can only be accepted as resting on intuition or predilection. I must admit that I possess no instinct by which to know the "reasonable" from the "unreasonable" in prices and must seek some conscious design for decision.

The same comment must equally be made in regard to fair return on invested capital, fair wages for labor, or working hours for employees. These things are set by competitive standards and a knowledge of these standards is essential.

IN respect to fair return for regulated utilities, the standards are delimited by the opportunities open to investors in other fields. There is nothing new or unique about this approach, although it appears to have been almost wholly ignored in rate cases since the war.

What has been widely regarded as the Supreme Court's clearest and most comprehensive statement on reasonable return embraces this standard

[5] Federal Power Commission *v.* Hope Nat. Gas Co. (1944) 320 US 591, 51 PUR NS 193.

alone. In the Bluefield Water Works Case, the court said:[6]

> A *public utility* is entitled to such rates as will permit it to earn a return . . . equal to that generally being made . . . on investments in *other business undertakings* which are attended by corresponding risks and uncertainties. (Italics ours.)

It would seem clear that the term "other business undertakings" has reference to enterprises outside of the utility field. Otherwise it would border the realm of circular thinking.

For example, Chairman Benjamin Feinberg, of the New York Public Service Commission, in his report of the committee on progress in the regulation of public utilities before the 1952 convention of the National Association of Railroad and Utilities Commissioners, said:

> Not only must the rate of return allowed recognize customer and investor interests, but it must be in line with investor returns from *industrial* enterprises with similar risks. (Italics ours.)

At the same convention, the report of the committee on corporate finance included the following statement:

> Since the last war there has been a greater spread between the earnings of utilities and industry generally than existed previously and if this spread is to be continued through holding down rates to bare subsistence levels it is highly questionable if the public interest will be served in the long run.

DISPARITY between the earned return of regulated utilities and industry in general has indeed been wide since the war. If, as a measure of industry, we use all U. S. manufacturing corporations, their earned return on total invested capital, over the period 1946-51, averaged 12.5 per cent, as contrasted with approximately 6 per cent for the investor-owned electric power and light companies.

Over the longer term, of course, the difference has not been so great as this. Earnings of manufacturing enterprises are subject to considerably greater fluctuation than earnings of the electric utility industry and in past periods of business depression their return on invested capital has declined very sharply. To what extent can their experience be used as a guide to what might be deemed reasonable for a regulated industry?

A primary purpose of regulation is to introduce into a field of practical monopoly those safeguards which elsewhere protect consumers through the impact of competition. The return allowed on the capital of a regulated industry must, therefore, not exceed that achieved by competitive enterprise; if it does, the cost to consumers of the service will be excessive.

On the other hand, regulation must not require a pricing of the service so low that the return on the capital invested is materially lower than that obtainable in nonregulated fields; if it does, individuals with freedom of choice will not furnish the capital required.

WHAT is obviously needed are objective statistical data depicting the actual experience of capital invested in other than regulated business. It seems reasonable to believe that, over a period of time, the forces of competition assure to consumers the

[6] Bluefield Water Works & Improv. Co. *v.* West Virginia Public Service Commission, 262 US 679, PUR1923D 11.

lowest cost for goods and services consistent with the necessary incentive to free individuals to continue their provision. This applies to the cost of capital as well as to all other costs. These competitive capital costs, therefore, constitute the most persuasive possible guide to regulation in its search for measures of fair return.

The table below shows the total invested capital, total income, and earned rate of return of all U. S. manufacturing corporations for each year for the 25-year period 1927 through 1951. Figures are not available to carry the study back prior to 1927. To the best of our knowledge the data on which these figures are based are the most comprehensive and accurate that are available. For the years 1927 through 1947 the figures are based on data published by the U. S. Treasury Department in its annual publication, "Statistics of Income." The figures for 1948-51 are from the "Quarterly Financial Report, U. S. Manufacturing Corporations," issued jointly by the Federal Trade Commission and the Securities and Exchange Commission.

INVESTED CAPITAL AND RATE OF RETURN
ALL U. S. MANUFACTURING CORPORATIONS
*(Dollar Figures in Millions)*

| | *Invested Capital* | *Total Income* | *Return On Total Capital* |
|---|---|---|---|
| 1927 | $55,631 | $3,617 | 6.5% |
| 1928 | 57,893 | 4,645 | 8.0 |
| 1929 | 60,504 | 5,249 | 8.7 |
| 1930 | 61,633 | 2,122 | 3.4 |
| 1931 | 58,811 | 86 | 0.2 |
| 1932 | 54,062 | (1,076) | — |
| 1933 | 51,532 | 697 | 1.4 |
| 1934 | 48,370 | 1,535 | 3.2 |
| 1935 | 45,487 | 2,464 | 5.4 |
| 1936 | 46,801 | 3,453 | 7.4 |
| 1937 | 47,480 | 3,443 | 7.3 |
| 1938 | 48,764 | 1,557 | 3.2 |
| 1939 | 49,325 | 3,290 | 6.7 |
| 1940 | 50,729 | 4,122 | 8.1 |
| 1941 | 54,233 | 5,847 | 10.8 |
| 1942 | 59,909 | 5,863 | 9.8 |
| 1943 | 67,204 | 6,481 | 9.6 |
| 1944 | 71,043 | 5,918 | 8.3 |
| 1945 | 71,948 | 4,554 | 6.4 |
| 1946 | 76,115 | 7,483 | 9.8 |
| 1947 | 84,688 | 10,855 | 12.8 |
| 1948 | 78,734 | 11,917 | 15.2 |
| 1949 | 85,348 | 9,441 | 11.1 |
| 1950 | 91,127 | 13,280 | 14.6 |
| 1951 | 108,219 | 12,389 | 11.4 |
| *Average 1927-1951* | | | *7.6%* |
| *Average 1935-1951* | | | *9.3%* |
| *Average 1946-1951* | | | *12.5%* |

INVESTED capital represents the sum of long-term debt, including bank loans maturing later than one year, plus capital stock, capital surplus, earned surplus, and surplus reserves. Prior to 1948 long-term debt includes all bank loans, since no breakdown of interest paid was given. For the years 1928-36 bank loans were not reported and the amount included is estimated.

The earned return, which provides the basis for the percentage figures, represents the sum of net profit after taxes plus interest paid. For the years 1948-51 interest paid was not reported and is estimated at 4 per cent on the average debt outstanding for the year. This was the average rate prevailing in 1946 and 1947.

In each year invested capital represents the average capital for the year. For the years 1927-47, it is the average of the beginning and year-end figures. For the years 1948-51, it is the average of the quarterly figures.

The tabulation shows that for the entire 25-year period the average earned return on invested capital was 7.6 per cent. For the 17-year period, 1935-51, the average return was 9.3 per cent. For the 6-year postwar period, 1946-51, the average earned return was 12.5 per cent.

THE selection of other enterprises which, in fact, have risks corresponding to those of an electric public service company presents great difficulties. No single industry, no single manufacturing enterprise, can qualify. However, if we take the entire field of manufacturing activity in the United States, we obtain a guide of substantial significance.

It is not suggested that a utility is entitled to the high return earned by manufacturing corporations in recent years, particularly since the war. However, when it is noted that over a long period of years, covering depressions as well as prosperity, manufacturing corporations have earned *on average* a return in the neighborhood of 7½ per cent, it is only reasonable to take this into consideration in determining what is fair for a utility company.

IT is interesting to note that the Federal Power Commission has itself supported this viewpoint. In its *amicus curiae* brief, filed in the U. S. Supreme Court in 1937 in California Commission *v.* Pacific Gas & E. Co.,[7] the commission argued, ". . . what is required is a fair rate of return on the investment of the utility. . . . The only fair method of determining such a rate, fair alike to the utility and to the public, is by application of a principle which will allow the utility a return comparable to the return that is being made by those who have invested their funds in other undertakings attended by corresponding economic risks and uncertainties.

". . . It would be proper and consistent to apply the rate of return on investments in industries in general (with elimination, of course, of speculative profits) to the investment in public utilities. . . .

"The rule is eminently fair to both consumers and to the company because in times of prosperity the rates of return, which rates are derived from the study of economic conditions and the earnings of business in gen-

[7] California R. Commission *v.* Pacific Gas & E. Co. (1938) 21 PUR NS 480.

eral, will be increased to give the utilities and investors therein returns comparable to those being made on investments in other business undertakings which are attended by corresponding risks and uncertainties.

"Under such a rule profits may and should fluctuate with economic conditions. . . . Such a method of rate making would permit utilities to enjoy a high rate of return when other comparable industries are receiving high rates of return and would likewise permit appropriate adjustments to square with the actualities in times of shrinkage of profits."

What could be fairer or more reasonable? What could make more sense?

THIS same approach has been endorsed by the Illinois Supreme Court in Public Utilities Commission *v.* Springfield Gas & Electric Co. (1919)[8] and very recently repeated in the court's ruling in Illinois Bell Teleph. Co. *v.* Illinois Commerce Commission, decided January 22, 1953,[9] when the court declared "that to induce the investment and continuance of capital there must be some hope of gain commensurate with that realizable in other business, and that the mere assurance that the investment would not be confiscated would not suffice." Also, ". . . the commission must use . . . a reasonable return, based upon an appraisal of the opportunities available for investment in other enterprises."

IT appears likely that the lure of the "cost of capital" approach to return determination stems from our instinctive yearning for a push-button solution in this age of scientific gadgetry. But, we have forgotten a fundamental factor: that the wage that will attract either men or capital must at least be commensurate with that offered by competing employers. The easiest way to discover this is to study what others are paying.

[8] State Pub. Utilities Commission ex rel. Springfield *v.* Springfield Gas & E. Co. (1919) 291 Ill 209, PUR1920C 640, 125 NE 891.

[9] Illinois Bell Teleph. Co. *v.* Commerce Commission (1953) 98 PUR NS —, 111 NE2d 329.

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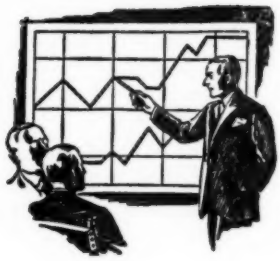
"NEVER *before has man discovered so much about which he knows so little. Truly this is an age of progress unlimited, nor is the progress of this age confined by any means to the fields of science, business, and industry.*

*"In the field of the creative arts, our poets, playwrights, authors, and commercial artists can hardly keep pace with the insatiable demands which are made upon them by the hungry presses, microphones, and television cameras of our modern age.*

*"As for the professions—well, someone has estimated that 30,000,000 laws have been enacted since the days of Moses, and while it may be true that none of these statutes has improved perceptibly upon the Ten Commandments and the Golden Rule, they have certainly created enough confusion to provide for the future growth of the legal profession for many centuries to come."*

—BENJAMIN F. FAIRLESS,
*Chairman of the board,*
*U. S. Steel Corporation.*



# Public Psychology in Rate Making

**This article discloses the misunderstanding which the general public has concerning public utility rates and earnings. Actually, rate increases to keep up rates along with other modern costs have very little effect on the cost of living of most individuals.**

By FRANK C. SULLIVAN*

DURING the past decade, one of the major problems confronting both public utility commissions and utilities has been the psychological atmosphere surrounding rate cases.

Caught in perhaps the most severe inflation in American history, wherein the purchasing power of the dollar has been halved in a 10-year period, the regulator and the utility have trodden burning coals in seeking a definitive answer to the problem of fair return.

All during this period of galloping inflation, utility managements have been required to woo the investors for more and more money with which to construct high-priced plant, while at the same time realizing acutely that no satisfactory provision has as yet been made to recognize the 50-cent dollar of the past investors.

Save for isolated instances here and there, utilities might as well have been operating on another planet as far as actual *increases in purchasing power of earnings* — as distinguished from per cent of earnings — are concerned.

Rates of return of 5.6 per cent, 5.8, 6.1, and so on are not uncommon. Consider the resultant dollars in terms of today's purchasing power and you begin to realize the problem to which many of the best minds in the utility field—among regulator and regulated —have been addressing themselves.

RECENTLY, The Cleveland Electric Illuminating Company published a pamphlet titled "The Impact of Inflation upon Public Utilities."

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One of its significant statements was: "Failure of utility common stocks to reflect true investment costs means that the real purchasing power of the utility investor's dollar has been cut by about one-third and so has the value of the annual dollar return he receives for his investment."

Another, quoting Jackson Martindell's article in the FORTNIGHTLY of June 19, 1952: "In the utility field, capital has come to be synonymous with money. This confusion of economic meaning has produced a philosophy of regulation which, carried over into a period of inflation, produces dire economic consequences to the utility business."[1]

Everyone associated with the utility field—utility executives, public service staffmen, and commissioners—recognizes these consequences: leanness of real earnings, difficulty in replacing plant, rendering service with high-priced plant at 1940 prices, which, in effect, constitutes expropriation of property by legal compulsion.

So much for the end results of what has been happening—which does not come as news to anyone concerned.

But why? What are some of the important reasons why controlling forces in regulation have so far been understandably reluctant to expand the earnings factor to account for the inflationary impact?

PERHAPS the best and quickest clew may be found by analyzing the type of thinking exemplified in a recent FORTNIGHTLY article authored by Roger Arnebergh, and titled "Should the Public Participate in the Regulatory Process?"[2]

Mr. Arnebergh answers his question in the affirmative, but reaches his conclusions by accepting certain basic assumptions. More, in setting forth the thesis that the public—*i.e.,* representatives of cities and county boards of supervisors — should appear in utility hearings for rate increases, he signally fails to state *how* they should appear.

And that is the crux of the matter. The *manner* in which they have been appearing in California during recent years has not been necessarily helpful to the regulatory process, the regulatory body involved, the utilities, or, for that matter, the public itself.

Why is this so?

It is so because the cities, which hold forth as representing the "public," have repeatedly refused to take into account the severe and, indeed, pernicious effect inflation has had upon the utilities charged with extending service during what is probably the greatest population boom in history.

THE average city has not appeared in such rate cases as *amicus curiae* —as an objective advocate of equity, seeking that objective regardless of consequences.

The cities have, furthermore, frequently overlooked what may also be their proper function—expressing a particular point of view on rates with regard to a particular area. Or, in the jargon of the trade, arguing over "spread" of rates.

[1] "Inflation—What It Means to Utilities and Investors." By Jackson Martindell. PUBLIC UTILITIES FORTNIGHTLY, June 19, 1952. Vol. XLIX, No. 13, page 828.

[2] "Should the Public Participate in the Regulatory Process?" By Roger Arnebergh. PUBLIC UTILITIES FORTNIGHTLY, February 12, 1953. Vol. LI, No. 4, page 210.

They have mainly appeared, instead, as *protestants.*

Now it is one thing to represent the "public" in a diligent, objective search for evidence which will enlighten the commission, the public, and perhaps the utility itself on what should be a fair and reasonable return.

It is quite another thing to enter the lists as protestants—as vocal segments of the body politic which are *opposed* to adjustments in rates, or increase in the existing rate of return, no matter what that return may be.

And that is exactly what the cities have been doing, and in so doing their spokesmen have been making political hay at the expense of the utility, and ultimately, perhaps, at the expense of that "public" for whom they say they speak. How can a city—or anyone else, for that matter—*oppose* a petition for an increase before taking into consideration all the relevant data, which, under the statutes, must be considered, such as revenues and expenses, depreciation, working cash capital, cost of new money, and so on.

To say that such opposition can be properly grounded and offered objectively before such evidence is considered constitutes a nullification of our concepts of regulation.

It is, of course, self-evident that no one likes to pay more for anything. But under the basic concept of regulation it is requisite that if you oppose an increase, such opposition must be based on something more than the wish fulfillment process. Nor is it necessarily helpful to initially adopt a position of being opposed to an increase and then employ engineers and rate accountants to dig assiduously for evidence to bolster the position assumed.

Aside from the political, to be discussed hereafter, the only other possible explanation for this continued "protesting" by the cities or "public" against rate increase applications, may be predicated upon the feeling by city political officeholders that they must protest to "keep rates and earnings in line."

Should this view be held, it would prove to be a negation of the theory under which the California Public Utilities Commission was established.

That theory, in the nub, was that a public regulatory body with great powers was required to represent the entire public interest by holding a fair balance between the consumer and the investor points of view.

When the commission speaks via a decision, it speaks in the public inter-

¶ "DURING *the past decade, one of the major problems confronting both public utility commissions and utilities has been the psychological atmosphere surrounding rate cases. Caught in perhaps the most severe inflation in American history, wherein the purchasing power of the dollar has been halved in a 10-year period, the regulator and the utility have trodden burning coals in seeking a definitive answer to the problem of fair return.*"

est—not for any specific interest. As a matter of fact, it is the only body which, unswayed by public feeling or bias, and operating strictly on the record, can be presumed to speak for everyone concerned.

At this point we touch upon the most unfortunate phase.

The hue and cry raised by cities' representatives — and sometimes echoed in the press through headlines —tend to create a public atmosphere of distrust and suspicion which is extremely difficult to combat, much less overcome.

And there is no valid excuse for this in the light of the fact that the record of regulation—and specifically that record in California—is one on which anyone attached to the public interest may well rest.

In considering whether the cities or "public" have been objectively helpful to the California commission, it borders on the amusing to reflect that the California commission staff, with 518 employees, is the largest in the country, and that the budget allocated to it for regulation is about $3,000,000 annually—a budget only exceeded in the nation by New York state.

Add to these facts the additional fact that behind the California commission there lies a rich body of tradition extending back to 1911, and you begin to understand how little the commission actually requires participation by the cities as protestants in order to continue *guarding* the public interest.

THE final point for possible city motivation in appearing in case after case as protestants lies in the field of politics.

Picture the city taxpayer and resident beset on all sides during the past ten years—one jump ahead of the tax collector, national, state, and city; the butcher, the clothier, the landlord—wrestling with his boss for raise after raise, with each increase quickly decimated by the shrinking dollar.

His automobile costs more—to buy, to operate, to park. His food costs a great deal more. His clothing, his dental and medical services, his amusements—virtually everything he requires to live has responded in a volatile manner to each nudge upward of the price cycle.

Most of the suppliers of the things he buys or uses were able to quickly adjust their prices in a free market.

Not so the utilities. They are regulated monopolies—they have to prove they need an increase. They cannot freely or rapidly adjust.

Thus, here the city politician can play the hero in the grim fight against inflation. Here, he can ride forth and joust against an adversary easily identifiable.

It wasn't — and isn't — too difficult to imply that the utility is the villain of the inflation drama.

And yet, while this has been publicly done, and while psychologically the city councilman, and many others, assume that the ratepayer easily identifies the utility as a villain, and shudders violently every time an increase is sought, there is grave doubt that such is factually the case.

PUBLIC relations folk refuse to take mass views for granted these days, and when there is doubt they hie for information to the pollsters and the social scientists.

## Recognition for Regulated Utilities

*"PERHAPS the time is not distant when education in the rate-making process will have reached the point where the public itself will applaud recognition of the unique place occupied by the regulated public utilities in our free enterprise economy. When that time comes, perhaps those who participate in rate cases before regulatory bodies and elect to speak for the public will modify their attitude of persistent opposition and help supplement the evidentiary material submitted."*

A recently conducted, disguised sampling taken in California for a public utility by one of the nation's most reputable opinion firms, disclosed results that will astonish many persons, among them city councilmen and boards of supervisors.

However, these results serve to confirm the suspicion of some utility men and a few regulators; to wit, that the public does not consider postwar utility rate increases to have been burdensome; instead, believe that utility services, by and large, are today's best bargains and, in general, regard utility earnings as reasonable.

The writer is privileged to quote excerpts here.

Two questions applied to rate of return.

One question was: What per cent profit do you think the utility *does* make on the money it has invested in the business?

The next question was: What per cent profit do you think the utility *should* make on the money it has invested in the business?

Four per cent or less of those queried said the company *does* make 7 per cent, should make 10 per cent; 5 per cent reported the company earns 5 per cent but should earn 7; 6 per cent said the company earns 5 per cent but should earn 10; 7 to 10 per cent of those queried said the company earns 11 per cent and should earn 11; 11 to 25 per cent of those interviewed said the company makes 10 per cent, but should earn 6; 26 per cent said the company makes 9 per cent, but should earn 6; approximately 52 per cent of those asked had no opinions on what the company makes, or should make. The pollsters reported that the average (median) reply indicated those interviewed believe the company earns 10 per cent, but should earn 6.

OF far more striking significance than these replies, however, were the answers to the question: Do you

think the (telephone), (electric light), (gas) company makes too much profit, a reasonable profit, or too little profit?

Percentagewise, the answers were:

Thirteen per cent thought the telephone company was making too much profit, 10 per cent the electric light company, 8 per cent the gas company.

Sixty-two per cent thought the telephone company was making a reasonable profit, 67 per cent the electric light company, and 69 per cent the gas company.

As to the question of too little profit, two per cent felt the telephone company was making too little, while one per cent felt both the electric light and gas companies were making too little.

Twenty-three per cent had no opinion on these matters with regard to the telephone company, and 22 per cent had no opinion relative to either the electric company and/or the gas company.

What are the conclusions that can be drawn from this poll?

WELL, for one thing, it would appear that all of those who expressed an opinion as to what they believed the utility should earn agreed it should be *no less than 6 per cent*, while many felt the return should run anywhere from 7 to 11 per cent.

Most of those who answered apparently believe that the utility is earning far more than it actually is, 26 per cent of those replying indicating they believed the *return is as high as 9 per cent.*

Couple those views with the opinions expressed in the next question as to profit—wherein from 62 per cent to 69 per cent felt the utilities are earning a reasonable profit—and you begin to approach the conclusion that the public is nowhere near as sensitive to utility rate increases as the demonstrations of a highly vocal minority, or the protestations of the city councils and city representatives would like us to believe.

HOW can we account for the fact that in California, and perhaps elsewhere, vigorous opposition to often very necessary utility rate requests almost invariably springs up from cities, purportedly on behalf of their constituents?

Two reasons account for this:

First, some free-lance engineers and rate experts have had something of a field day in bringing cities together in opposition groups *because city councils simply assume that their people are,* PER SE, *against utilities raising the price of their services!* These engineers and rate experts have sometimes actively campaigned to fan into flames of protest what may originally have been an honest negative or indifferent attitude on the part of the people, and which might under conditions of enlightenment and clarification even become actually sympathetic to a rate increase. Frequently the rate expert or engineer succeeds in getting retained to "carry on" in the hearing room.

The second reason—as noted heretofore — is because *the press mistakenly assumes that the public is definitely hostile to any utility rate increases regardless of economic justification.*

ALTHOUGH the polls to which I have alluded do not disclose any basis

for this assumption, it would seem that the apparent indifference of the man in the street to such increases, is because he is preoccupied with important increases—ones which have far more impact upon his scale of living than the few cents added per month to his telephone, light, gas, or water bill.

Rate case applications of any magnitude may command top billing in the press. The authorization of increases by the commission after public hearing, and months of careful weighing of evidence, too often elicits such colorful descriptive verbiage as "rate *boost*" and "rate *hike*," which tends to cast a somewhat provocative slant upon the action taken. The appearance of such headlines stimulates city councils and their rate attorneys to believe that there is a mass movement for further protestation the next time another case comes to bar.

It was hinted earlier all this sort of thing may result in performing an actual disservice to the rate-paying public.

That could readily come about through the fact that the cities have usually opposed *any* increase in the rate of return—no matter what the reason advanced! In other words, the California record indicates that, once a return is mentioned, it would seem that in the eyes of cities or "public" —if those terms can be held to be synonymous — that the dollar return must, therefore, be fair and reasonable and the maximum until eternity.

It is this very point on which the cities often make their fight. If it was fair and reasonable once, their argument seems to go, then it is fair and reasonable today.

Now this is an invalid premise, as anyone in the regulatory field is aware.

As a matter of fact, a dollar return held to be reasonable as recent as six months ago, could be unreasonable and unfair today. And with high-priced investment coming into utility plant during inflation, the regulatory agency cannot remain unaware of the inequities involved for the investing public, particularly in connection with the problem of maintaining what Mr. Martindell states is the exchangeability or purchasing power of capital.

Professor William A. Paton, testifying before the Illinois Commerce Commission, expressed the identical point in a somewhat different way.

"Frankly, I consider it ridiculous," he said, "to base charges to customers to cover the cost of plant capacity being currently consumed on the recorded dollar costs of a decade or more ago. To me that is just as unsound as it would be to determine maintenance cost on the basis of the prices of materials and services in effect in the past. The consumer of gas, for example, should be charged for the capacity of the mains, meters, and other facilities he is consuming.

¶ "When *the commission speaks via a decision, it speaks in the public interest—not for any specific interest. As a matter of fact, it is the only body which, unswayed by public feeling or bias, and operating strictly on the record, can be presumed to speak for everyone concerned.*"

"If he is only charged, in lower-value 1951 dollars, for the number of high-value earlier dollars invested, he simply is not being charged for the cost of the service currently rendered, and this is not sound pricing in any economy.

"We expect a person renting a car, renting a warehouse, or utilizing any other form of plant service to pay for such service on a current basis, in current dollars and we should treat the buyer of gas, electric energy, or any other utility service accordingly."

DR. WALTER A. MORTON, professor of economics at the University of Wisconsin, testifying on behalf of the Southern Counties Gas Company at Los Angeles, California, early this year, termed the process that has been going on "expropriation."

He added: "In my view such expropriation is not consistent with law, and it should not be because it would be inimical to the best interest of our society. No class of our people that can reasonably be protected from expropriation by inflation should be wilfully exposed to it."

And what has been the attitude of the cities to the points of view suggested by Dr. Morton, Professor Paton, and others?

Dr. Morton's testimony refers to the previous testimony of a Mr. Clarence Winder, rate engineer, appearing for the cities in the Southern Counties Case.

"Either there is a limit to this kind of expropriation or there is not," Dr. Morton testified. "On cross-examination Mr. Winder stated the view that no adjustment should be made for inflation, regardless of its extent. He accordingly said that there is no limit to the expropriation that he would tolerate. Nowhere have the implications of the nominal dollar doctrine been expressed more clearly."

A PERTINENT question would be: *How helpful to the commission, to the utility, and to the public have the cities been when they appear as protestants, before evidence is developed or presented, and cling to the nominal dollar doctrine, despite what appears to be a palpable injustice?*

There can be little doubt that unless, some day soon, cognizance is taken of the inflationary factor in dollar return, public service will suffer through inability of utility managements to obtain the great amounts of financing required.

Could it fairly be said then, that the cities, or "public" (if they be synonymous), have in reality adopted a policy which at the moment may appear to be "popular" but which, in the long run, may bring grief to us customers as well as us direct or indirect investors?

Perhaps the time is not distant when education in the rate-making process will have reached the point where the public itself will applaud recognition of the unique place occupied by the regulated public utilities in our free enterprise economy.

When that time comes, perhaps those who participate in rate cases before regulatory bodies and elect to speak for the public will modify their attitude of persistent opposition and help supplement the evidentiary material submitted.

# Strikes in Public Utility Industries

*Ever since a dozen or more state laws to prohibit public utility strikes have fallen under the shadow of unconstitutionality, as a result of the United States Supreme Court decision in a Wisconsin case, what to do about public utility strikes has become an open question.*

BY THE HONORABLE FRED A. HARTLEY, JR.*

THE innocent victim of every public utility strike is the public itself. While the people are protected against the abuse of power by management, they are not given equal protection against the abuse of power by labor leaders.

For example, suppose the directors of any given power or transportation company voted to enforce their demands for higher rates, or fares, by shutting down their plants, the courts would immediately enjoin them from carrying out their threat. If they defied the injunction, they would be jailed; the company's franchise would be taken away; and public authorities would keep the plants going.

There is plenty of law to protect the people of any community so confronted with a menace to public health, safety, and welfare, if owners or management of essential utilities should dare to make such a threat. However, there is no law which provides similar protection for the people of any community when a union sets out to enforce its demands for higher wages or other concessions by shutting down the plants of essential utilities.

To illustrate the seriousness of such a strike, let us briefly recall the utility strike against the Duquesne Light Company in Pittsburgh in 1946.

The area normally supplied by that company contained about 1,500,000 people. The membership of the union

*Former U. S. Representative from New Jersey. For additional personal note, see "Pages with the Editors."

¶ "THE *plant seizure idea was ineffective even in wartime in avoiding strikes. For example, the government used seizure five times and operated the coal mines of the nation more than one-half of the time between 1943 and 1947. In spite of this there were seven industry-wide coal mine strikes during that period. It is, therefore, crystal clear that neither the Taft-Hartley Act, nor plant seizure, can assure the public of protection against these disastrous work stoppages in public utilities.*"

which called the strike numbered but 3,200. The efforts of local officials in Pittsburgh proved hopeless to prevent or to end the walkout. The courts, after a brief display of judicial fortitude, proved equally powerless. They ordered an injunction against the strike and sentenced the union president to a year in prison for contempt of court in flouting it. He spent but a single night in jail. Other national unions called sympathy strikes demanding that the injunction be rescinded. It was rescinded. Meanwhile, industrial paralysis settled on the city. The street lights were out, homes were lighted by candles, transportation was almost nil. Shortages of power closed many plants, halted elevator service, and threatened a water famine. Locomotives were run into factories and alongside hospitals to heat them. Some $3,000,000 in unemployment compensation was paid out to nearly 80,000 persons thrown out of work. The business loss was incalculable.

WHAT I have just described *could* happen in *your* community. Only in the event the industry in any given community were of sufficient importance in the entire national economy could the provisions of the Taft-Hartley Law be invoked. However, former President Truman failed to invoke the Taft-Hartley Law in the nation-wide steel strike, even though that strike cost the national war effort the production of 250,000 tons of steel per day for fifty-five days. Even where the Taft-Hartley Law can be invoked, it guarantees only an 80-day delay; because if the employees refuse the employer's last offer, there is nothing in that law or any other law which deals with such a situation at the Federal level. In addition, a Federal law dealing with this subject would be limited to interstate commerce and could not be invoked in every public utility strike. In intrastate public utility strikes, the Taft-Hartley Law has prevented the adjudication of the disputes under state laws. For the courts have held that the Federal statute supersedes the state law.

THEREFORE, the answer to this problem must be found at the state level. In my opinion, the one way to protect the public from disasters such as the Pittsburgh strike, is to *ban* such strikes completely. It should be made clear to every person seeking employment with a public utility company that he is giving up in the public interest his right to strike.

To insure fair treatment in the matter of wages and other working conditions, I would then propose that the state public utility commissions, which are empowered to set rates for light, power, transportation, etc., also be given the authority to act as impartial arbitrators for rates of pay and other conditions of employment. These procedures would be invoked only after voluntary collective bargaining had failed. I base this suggestion on the premise that if it is in the public's interest to protect it from being gouged by management, then it is also proper to protect it from inconveniences, and even danger, by inconsiderate acts on the part of labor.

I believe such a program would bring about more harmony between labor and management in the public utility field.

Today management has no assurance that a compensatory increase in rates will be granted if needed to offset increased labor costs. The public utility commissions of the various states, having all of the facts before them at all times, would be in an ideal position to see that both labor and management are treated fairly, with pressure from all interests involved being equalized by the public interest. My main concern in this entire matter is the public interest, but I feel that the best interests of all parties involved can be fairly served under such a program.

THERE are those who advocate plant seizure in both nation-wide and public utility strikes. This has been tried several times on a national scale, but it has proved to be a complete fraud. Under such a procedure a sign or banner is posted on the property seized, proclaiming governmental management, while actually its regular management continues to function. In the meantime, some bureaucrat, or group of bureaucrats, with no responsibility to the stockholders, or anyone else for that matter, makes decisions concerning the dispute without any obligation to find the ways and means of complying with their dictums. The plant seizure idea was ineffective even in wartime in avoiding strikes. For example, the government used seizure five times and operated the coal mines of the nation more than one-half of the time between 1943 and 1947. In spite of this there were seven industry-wide coal mine strikes during that period.

It is, therefore, crystal clear that neither the Taft-Hartley Act, nor plant seizure, can assure the public of protection against these disastrous work stoppages in public utilities.

As one who has always believed in the greatest amount of freedom and as little governmental regulation as possible, I have done my best to try to come up with a proposal without having compulsory arbitration as a final resort. However, I don't believe anyone can offer a program guaranteeing the public uninterrupted service and protection of its health and safety without finally resorting to arbitration under the conditions I have proposed.

In place of "the public be damned" philosophy, I propose in the public interest, "the power be manned."

# Taking the Gamble Out of Pensions–Perhaps

*This is a somewhat different view on utility pension plans from one recently published suggesting that pension compensation be made more elastic by use of common stock investment. This author points out some dangers during periods of recession.*

By GEORGE JACKSON EDER*

May I register a very respectful dissent to the proposal advanced by Geoffrey N. Calvert in the March 26th issue of Public Utilities Fortnightly?[1]

Mr. Calvert's plan for taking the gamble out of public utility company pensions is to have half of the pension fund invested in fixed interest obligations and the other half in a well-diversified list of common stock, the pensioner to receive a steady dollar income from the former and a fluctuating income from the latter, varying—it would be hoped — in consonance with the purchasing power of the dollar.

At a time such as the present, when we have passed through a period of steadily rising prices, with the inevitable hardships to pensioners and others dependent upon a fixed dollar income, it would seem that there might be much to be said for this idea.

On the other hand, it has been my experience that people in retirement can generally adjust themselves better to a fixed and certain dollar stipend than they can to the uncertainties of a fluctuating income, even though some theoretical index of purchasing power may assure them that they are getting the same monthly income measured in stable dollars. The retired man or woman has a number of expenses, such as rent or the interest on a mortgage, which are fixed in terms of dollars, and as for his or her other expenses, it is easier to make a suit or a pair of shoes last another year than it is to adjust one's living standards to an income which may vary from $200 in one month to $150 or less in another.

*Assistant general attorney, International Telephone & Telegraph Company. For additional personal note, see "Pages with the Editors."

[1] "Taking the Gamble Out of Pensions." By Geoffrey N. Calvert. Public Utilities Fortnightly, March 26, 1953. Vol. LI, No. 7, page 415.

¶ "FOR *a public utility enterprise in particular, susceptible as it is to public criticism, it would seem perilous to make any part of the pension payment dependent upon the current income from common stocks. Had this procedure been in vogue in 1929, for example, the income on many of these stocks would have been nil and, even though living costs did in fact tumble during the general depression, it would have been hard for a public utility to justify a cut of up to 50 per cent in pension payments.*"

The purpose of any pension plan is the elimination of worry, and the scrimping and scraping that may be necessary when prices rise are less exulcerating than not knowing from month to month what one's income is going to be. People over sixty-five crave repose rather than excitement and, when the monthly retirement pay envelope is opened, they would rather find a check for a sum certain than a lottery ticket.

FOR a public utility enterprise in particular, susceptible as it is to public criticism, it would seem perilous to make any part of the pension payment dependent upon the current income from common stocks. Had this procedure been in vogue in 1929, for example, the income on many of these stocks would have been nil and, even though living costs did in fact tumble during the general depression, it would have been hard for a public utility to justify a cut of up to 50 per cent in pension payments.

These considerations notwithstanding — and I recognize that there is room for disagreement in this field — there is no doubt whatsoever as to the validity of Mr. Calvert's basic thesis:

> . . . The pension, to be truly meaningful and sufficient, must be geared to his pay over the period immediately before retirement and not to his average wages over the period of his employment until retirement. Under some plans, the pensions are geared in this manner, usually to the average pay for five years before the retirement date.

The obstacle in the way of establishing pension payments on the basis of average pay for the last five years of employment is, of course, the impossibility of budgeting the annual pension accruals with any degree of accuracy, and presumably a public utility pension plan should be actuarially sound. What I would propose as an alternative to Mr. Calvert's scheme for taking the gamble out of pensions is a plan that, as far as I know, has never been used or explored, yet which, I believe, has much to recommend it.

THE conventional pension plan allows a pension based on a fixed percentage of average pay over the entire period of employment multiplied by the number of years of employment or, to put it another way, the aggregate of a fixed percentage of each year's salary. What I would propose is a variable percentage, say

3 per cent of salary for the last five years immediately prior to the retirement age, say for age sixty and over in the case of men employees, 2 per cent for the preceding ten years, and 1 per cent per annum up to the age of fifty.

The percentages would have to vary according to the cost of such a plan for any particular company and the amount available for the purpose, but the general principle is clear and, of course, there is no more difficulty in computing annual accruals under such a plan than if the pension were a fixed percentage for the entire period of employment.

To take a hypothetical case of an employee retiring at age sixty-five after forty years of service, whose income during the period has risen from $2,000 to $10,000 per annum, the 1-2-3 per cent accruals for fifteen, ten, five years, respectively, would average 1½ per cent per annum but, with the greater stress laid on the later years of employment, the pension would work out at approximately $2,900 per annum instead of $2,160 on a flat 1½ per cent basis (assuming the same smooth ascending curve of salary increase in both cases).

This plan would have other advantages in that it would tend to minimize the accruals into the pension fund with respect to those employees who are dismissed or who retire or die before reaching the pension age, and that it would serve as a strong and increasing inducement to the older employees — presumably the most valuable — to remain with the company until retirement.

To get back to Mr. Calvert's plan, it seems to me that investment in common stocks does have a place, and a very important place, as a supplement to a fixed pension plan, and those utility company managements which are in a position to establish an employees' contributory trust under § 165 of the Internal Revenue Code would do well to invest all or a very large part of such a trust fund in common stocks, including the common stock of their own companies—the latter offering many incentives beyond that of the tax advantage.

Because of the tax-free features of a § 165 trust, and because of the employers' contribution entirely apart from the fixed pension plan of the company, such a plan offers an opportunity to build up a relatively substantial fortune impossible under any other savings plan, while the possibility of loss because of stock market fluctuations would almost certainly be offset by the tax-free feature and by the company contribution.

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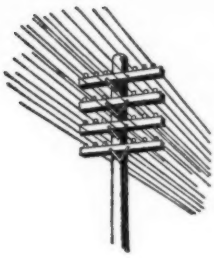
*". . . if we give an individual immunity from want, we stifle his drive—we stifle the driving force of our enterprise system. All of the energies of all of the people released through initiative are essential to the common good. Let us release all of the desires of all men for present-day wants and future security needs and we will have a vitalized society."*

—H. Bruce Palmer,
*President, Mutual Benefit Life Insurance Company.*



# Useful Pointers on Finding Girl Power

**It comes in several grades. You have to drum the highways and byways. And your best source may be the people already working for you.**

By JAMES H. COLLINS*

THERE are seven ages of man, according to Shakespeare, who found man a comparatively simple fellow. Shakespeare does not appear to have gone into any such ticketing of woman.

If your job happened to be hiring 10,000 girls this year to operate the switchboards of Pacific Telephone's southern California organization, you would find the personnel manager's three ages of woman helpful:

First Age—The very young person, eighteen to nineteen, just about to graduate from high, with a schoolgirl's romantic dream of Life.

Second Age—The young person, from twenty to twenty-two, a bit more sophisticated, and also more hirable, a girl in a hundred.

Third Age—The young woman, from twenty-three to thirty-six, and now interested in a career, not just a job; she is the end product of all your hiring, a gal in 10,000.

To hire a thousand girls every month it is necessary to find and screen ten times as many. Through the year you must maintain a parade of a hundred thousand, which is a lot of femininity. Blondes, brunettes, redheads, albinos; you drum them up, and pass them in review, and hope some of them will stay long enough to cover the cost of their training.

GIRL power is what you start with, and if the problem is new to you, it quickly becomes clear that girl power is in shortage. The banks, offices, retail stores, and other businesses are in competition for girls. There will be a couple of solid pages of ads in the "Help Wanted — Women" pages of the Los Angeles Sunday papers, and no field of copy writing has advanced so far. The

* Business editor and author, Hollywood, California.

writers make jobs for girls as alluring as a new dog biscuit or beauty cream.

"Girls!!! Do you want to earn money for light, interesting work, in pleasant surroundings, with interesting associates?" they ask. "No experience whatever necessary, start at $150, $200, $250, you are paid while you learn, you are paid while you take wonderful vacations, you are paid on sick leave.

"Girls! Do you enjoy arithmetic? Then become an accountant with this growing company. Do you like to meet people? We have openings for young saleswomen. Are you ambitious, do you want to get on in life, and be well paid while you are doing it?"

Really, if you haven't read this kind of copy, you will want to be a girl again, or wish that you were born one.

Girl power advertising turns up on radio and television, posters and banners, drops out of your letters. A telephone fellow, new to the girl power problem got the idea of putting a "Girls Wanted" envelope filler in with the monthly bills, and was astonished when business customers charged him with trying to hire their girls away.

AROUND Los Angeles they feel that this shortage is more acute than elsewhere, due to the growth in population and industry since war's end. The lowered birth rates of depression years are now appearing in shortages of young people. The stepped-up military program since Korea is a factor. Some authorities suggest that the shortage will ease as the military program tapers off. Others ask, "Suppose the war gets hot?" It seems to be part of the pro and con opinion about what will happen when the country goes back to full peace production, with no military contracts to stimulate the economy. Every shade of opinion can be found in the forecasts. Nobody knows. The unexpected generally happens. Whatever it may be, Los Angeles expects to feel a greater impact than other regions, as has been the case since Pearl Harbor.

Girl power starts with the young miss in high school, as she approaches graduation, and the weeks before June are busy times for the recruiting sergeants of business.

Los Angeles has a hundred high schools, counting the parochial ones, and during these weeks they set aside "Career Days," on which employing concerns are invited to make their girl power pitches. Each company is assigned a room in which to show its wares. Speakers come with movies, slides, charts, and printed material, there are question periods, and the girls about to graduate can come in, listen, look, and quiz, compare job offers, and think things over. At downtown hotels, "Youth in Industry" shows are staged along similar lines, each business concern being assigned rooms.

SCHOOLS have placement bureaus, student counselors, and other career facilities, and their wishes and advice are respected concerning employment presentations. Generally, the senior students are most interested, but juniors also attend, and frequently the whole student body, or the female students where girl power is recruited.

The high school miss is thinking about a job for the summer, as a rule.

She expects to work after graduation, but not for long, not for a career. Her career already has been chosen. It is marriage. She is probably engaged. But she wants some clothes, or to buy things for her future home, and will pick the job that pays most, and is easiest to learn. Further than that she is not likely to go, even in imagination.

Her fixation on the fast buck is saddening to the personnel managers who want to hire her, and they also deplore her lack of interest in shorthand, typing, and the three R's. In school, apparently, she got chiefly the higher education.

However, this is an old argument between business and education, and the personnel fellows say, "This may be just our view of girl grads—better not quote us on it. She probably has different ideas."

If she will just qualify for a job, they undertake to train her. Let the school of life teach her the facts.

PACIFIC TELEPHONE makes school presentations through speakers, assigned to go around during the weeks before graduation, and kept busy. They work from a script, with motion pictures and other accessories, and in a 40-minute program include a question period.

The script starts with a historical background, to stress the importance of telephone service to the community and the usefulness of telephone workers. Once, the whole Los Angeles telephone traffic was handled by two operators, and from that the presentation comes up to the radio networks, coaxial cables, microwave systems, and television of today.

THIS spotlights another fact for the students—that despite the mechanization of phone equipment, and toll dialing just around the corner, there is always a demand for more people. Especially girl power. If New York had to do its phoning with the plant of a generation ago, there would not be enough girls—eighteen to fifty—in the city to run the switchboards. A telephone job is permanent for anybody who wants to make it so. Girl power is indicated by the 61 per cent of Pacific Telephone women in the Los Angeles area, more than half of them on switchboards.

The character of work is explained, office as well as operating jobs, what a girl learns in training and its possible value to her later on in life, hours, wages, vacations, and so forth. These matters are also explained in booklets, and emphasis put on the division of the whole widespread organization into sizable groups, where individual ability is recognized and rewarded.

It would be pleasant to report that

¶ "GIRL *power is what you start with, and if the problem is new to you, it quickly becomes clear that girl power is in shortage. The banks, offices, retail stores, and other businesses are in competition for girls. There will be a couple of solid pages of ads in the 'Help Wanted—Women' pages of the Los Angeles Sunday papers, and no field of copy writing has advanced so far.*"

after such a pitch the girls flock to employment offices. But it wouldn't be true. Last year a record was kept of some 22,000 girls who applied for operating jobs, and only two in the hundred said they had come as a result of school presentations.

This is not disheartening to personnel people, because they scout for applicants in a dozen different ways, and the young miss who fills out an application will give the first reason that comes into her head. She probably sat through a school presentation, was reminded by radio or television spots, looked up the company's newspaper ad when she decided there might be something in telephone work, and said "Why, I think I read a magazine advertisement."

*Sources of Applicants*

| | |
|---|---|
| Newspaper advertising | 7,603 |
| Through present employees | 3,731 |
| Former employees | 2,304 |
| School presentations | 463 |
| Posters, displays | 267 |
| Other advertising | 197 |
| Radio | 132 |
| Television | 39 |
| U. S. Employment Service | 30 |
| Magazine advertising | 2 |
| Came on own volition | 6,553 |
| Reason not obtained | 806 |

A WOMAN will always change her mind. The girl graduate wants to earn some money right away, the mostest the soonest. After all, she will be married tomorrow.

But going to work, she discovers that she needs more money than she thought. She begins comparing her job with others. The work she has found may not interest her; she doesn't like the people she works with; she wonders if, after all, the telephone job wouldn't have been better. So she comes in to ask about it.

If she has married, there is furniture to pay for, or instalments on a home, her husband needs further education to advance in his job, there is military service—a baby. Inflation has made it harder for postwar breadwinners alone to support a family.

She will be back, and school recruiting leads up to this.

After a few years the young person matures into the young woman. She is now in her later twenties. Her family status has changed by divorce, death, financial loss, health—in California many job seekers are members of a family that has moved on account of one member who needs a change of climate. In telephone service this applicant is often a woman with operating experience elsewhere.

This is the career woman, ambitious, capable of responsibilities, likely to stay until retirement. She is one in 10,000 of all the teen-agers who looked in upon a school presentation. She will be one in 10,000 to the organization.

SCHOOLGIRLS are screened by a few tests that determine, without too much paper work, whether they will justify training.

For training costs at least $500, and only one applicant out of ten in the general run will qualify. If the teen-ager in pursuit of the fast buck were handed half the training cost she would get what she seeks, and the company would save money. There may be an ideology around somewhere that promises this!

The tests are keyed to what switchboard operating takes.

Toll calls involve sizable numbers, with names of distant points, and usually of persons. Tests are given

Help Wanted, Women 105
GIRLS
IT'S YOUR MOVE!
Bank of America has many immediate openings for Bkpg. Machine Trainees, Typists, Teller Trainees & Stenos.
Bank of America training school offers a three week course in bookkeeping machine operation at full pay.
Bank of America assures you of a permanent, interesting position in the metropolitan area, possibly near your home.
Bank of America offers free hospitalization and life insurance, merit pay, profit sharing.
GIRLS
Do You Enjoy Arithmetic?
We have several openings for TYPISTS & NON-TYPISTS
See Dorothy Fisk
PACIFIC MUTUAL LIFE
GIRLS
TELEPHONE OPERATORS
DO YOU WANT?
Job Security
Pay While Training
Regular Pay Raises
Paid Vacations
Hospitalization Plan
Work Near Home
If so make
A CAREER WITH
GENERAL TELEPHONE COMPANY
of California
Stenographers
STARTING SALARY
$269 PER MO.
5 DAY WEEK
Rapid, accurate shorthand & statistical typing. Excellent opportunity for young lady attending business college. Liberal program of employee benefits including sick pay, savings plan, paid holidays, vacations and regular salary reviews.
APPLY IN PERSON
SHELL OIL
1008 W. 6th ST.
Newcomers
Beginners
AND EXPERIENCED GIRLS
NO AGE LIMIT
AND
NO EXPERIENCE
FULL PAY FOR MANY JOBS
NO TYPING
WHILE LEARNING
Help Wanted, Women 105
FILE CLERK
No Exper. Necessary
GIRLS
Experienced or Inexperienced
Interesting Positions
at Good Pay
If you're a personable High School graduate under 25 with an aptitude for clerical work, we will train you for a
Help Wanted, Women 105
IN ADDITION TO GOOD WAGES, PACIFIC TELEPHONE OFFERS
★TRAINEES
18-30—Whether you have had prior insurance experience or not, we have the following openings for your consideration:
ACCOUNTING CLERKS
TYPIST CLERKS
CALCULATOR OPERATOR
PERSONNEL CLERK
Company benefits include Profit Sharing and Discount Card with large depart-
5-Day Week
Paid Holidays and Profit Plan
Employee Benefits
Attractive Quarters
Interesting Jobs
for
TELEPHONE OPERATORS
BUSINESS OFFICE REPRESENTATIVES
CLERICAL WORKERS
APPLY
BANK POSITIONS
EVENING INTERVIEWS
FOR
HOLLYWOOD
AREA
No Exper. Required
Work near your Home
Excellent Benefits
Work in a Bank
5-DAY WEEK
Citizens Nat'l Bank
BANK POSITION
Work home which
NEAR your
Offers You
Rapid Advancement
Pleasant Work Conds
Vacations & Numerous
Holidays with pay
Hospital & Surgical Insurance
and other benefits free
SATURDAYS OFF
BKPG. MACH. TRAINEES
PBX-CLERKS
TENOS.
★OFFICE WORKERS...
Here's some good advice
DO IT
Tomorrow!

with such numbers, to determine ability to remember them, and especially not to transpose them, and to record and remember in completing calls later on where lines are busy. Some persons have an almost photographic ability to handle numbers, while others cannot learn. Tests are given for ability to file documents by names of companies and persons, and for simple arithmetic, handwriting, and other aptitudes needed in office work.

But where ten applicants must be attracted in the general run to find one that can qualify, there is one source that brings in one desirable applicant in every three.

That is the applicant sent by present and former employees, who also send about one in every three of the overall job seekers.

THIS is experience in other lines of business—that a good company to work for has a most valuable source of new employees in its people—that a good organization can to a large extent grow from within itself.

These applicants turn out better because they undergo a screening by employees. An experienced operator, or a supervisor, will have some conception of Mamie's ability for the kind of work she does herself, or will see that Lucy might do better in some other occupation. There is often a family or neighborhood setup, which means that the potential applicant is known. Some employees of a particular company will become known as neighborhood job advisers, turned to by young people looking for work. So the proportion of acceptables is higher.

And this is a productive channel to cultivate. Pacific Telephone issues frequent bulletins to employees giving information about worker requirements, and results of employee recruiting. These are typical facts from bulletins:

> During 1953 it will be necessary to add about 4,200 women operators to the Los Angeles exchange alone, to provide for growth, and replace losses.
>
> Even in a normal labor market this would be a problem. The labor market is not normal. There is a shortage of girls and women for operating, office, and other requirements.
>
> It is important that employees refer good applicants to the company employment offices, especially in certain areas where the needs are greatest. As an example, it is difficult to persuade women operators to work in the downtown district.
>
> In round figures 100,000 applicants for all departments, men as well as women, were interviewed in 1952, and 10,000 hired.
>
> Employees sent 6,198 applicants, of whom 2,165 were hired, so that one new employee in every five came as the result of some employee's interest in recruiting.
>
> In one month this year each 1,000 employees of Pacific Telephone's southern organization sent 122 new employees: Traffic thirty-four, administration twenty-six, engineering twenty-five, commercial fourteen, accounting twelve, plant eleven.

THUS, recruiting through employees is a channel not to be overlooked, but how to utilize it seems to be a problem. Various incentives have been tried or suggested, such as money compensation for applicants hired as the outcome of employee effort. The cost of advertising for recruits in other ways is heavy, and part of this expense paid to those who drum up acceptable workers seems fair enough. But there is the disad-

vantage that quality might fall off, with mass recruiting. Theater tickets, trips, and similar recognition have been suggested, and of course the familiar contest applied to recruiting, but nobody has yet come up with a practical plan.

Good applicants are sent by employees because they feel that they work for a good company, and that a particular relative or acquaintance would make a good addition to the organization. How to put that feeling to work is the problem.

The small group visiting the plant is one possibility.

Many business concerns hold open house receptions, inviting the general public to tour the factory, see its cleanliness, the complexities of its processes, for good will, or community understandings, or to promote products.

Smaller plant parties are sometimes staged for a particular purpose, like those given by a Los Angeles rubber manufacturer to young engineers. He made parts for aircraft during the war, had competition with other materials, and on the principle that young aircraft engineers would soon be designing and specifying, invited them to his factory for a light supper, movies, and a trip through the place to see how rubber was manipulated, with his own engineers to answer questions. There were no immediate results, but before war's end some of his guests were ordering parts, and even today orders come from distant plants where they are now working.

SMALL parties of young people, selected as potential employees by present employees, can be entertained without interfering with work, given opportunities to look into any particular department that interests them, and be likely to turn in a high percentage of applications for jobs.

The plant visit was strongly recommended in a recent survey made among executives, to get their opinions of high school graduates after hiring.[1] They were asked how the students stacked up, whether they were deficient in the three R's and other qualifications, and, if so, what educators could do to more closely adapt them to business.

In the area surveyed, only 10 to 20 per cent of high school students go on to college. The rest go to work. How

[1] "Management Looks at Secondary Education," a paper presented before Phi Delta Kappa, XI Chapter, University of Pittsburgh, by H. S. Metcalfe, director of public relations, West Penn Power Company, Pittsburgh, Pennsylvania.

¶ "THERE *is an ever-widening gap between young people in schools and the industries of their communities, caused not by indifference of either business or educators, but simply by technological progress. In school, a student may study something like accounting, which involves mechanical equipment, which is constantly being improved; the school's equipment may be getting out of date, and the teaching not kept abreast of large accounting organizations.*"

do they fit in? This survey was carried out by specialists of the Psychological Corporation of New York, a great deal of information obtained from 172 executives in various lines of business, and the results carefully studied.

Two-thirds of the businessmen said that graduates were deficient in reading, writing, arithmetic, and speaking, and believed the schools could put more emphasis on these fundamentals.

There was also complaint that students did not get vocational training in shorthand, accounting, and trade skills which would be useful to themselves as well as employers in starting life.

Opinion was three-fourths unfavorable on responsibilities toward their jobs, prejudice against manual labor *versus* white collar work, and understanding of the American political and economic system.

Opinion was about half and half as to citizenship, respect for law, and ability to get along with others.

THE graduates were given a clean bill of health on character, honesty, sobriety, and respect for the rights of others, and of property.

Briefly, they were good boys—and girls—who had not learned enough in school of what they would need when they went to work.

The management fellows were willing to shoulder some of the responsibility for this state of affairs, admitting that they had not worked with educators to improve the schooling.

They suggested plant visits by young people in school, the sending of speakers to the schools, conferences with teachers, the supplying of teaching materials, and similar ways of drawing the community and its industries together.

THERE is an ever-widening gap between young people in schools and the industries of their communities, caused not by indifference of either business or educators, but simply by technological progress.

In school, a student may study something like accounting, which involves mechanical equipment, which is constantly being improved; the school's equipment may be getting out of date, and the teaching not kept abreast of large accounting organizations. The student finds a job in a bank or office, and the equipment is new to him, and the systems behind it. Visits to business concerns while in school would be of great value to him.

Along the same line, the very young person's ideas of telephone operating may be dated, and plant visits would help in recruiting girl power.

## Tractors Using LP-Gas

*MANY farmers are converting their gasoline-burning tractors so they can burn LP-gas, or liquefied petroleum. Some 20,000 tractor owners are expected to make the change in the Southwest alone.*

*One major tractor manufacturer, recognizing the trend, plans to turn out 50,000 LP-gas farm tractors this year, about 25 per cent of its total production. The gas is said to be cheaper than other fuels and to burn so cleanly that engines can run 300,000 miles without major overhauls.*

# Washington and the Utilities

## *Ike Backs McKay*

IF critics of Secretary McKay's policies on public power had any idea that he was acting without the knowledge or approval of the "Chief," Eisenhower cleared up the question very definitely in his recent trip to the ceremonies marking the completion of Garrison dam. The preceding evening, President Eisenhower, in an address before the Young Republicans at Minot, North Dakota, altered his prepared speech with a plug for his "team." He acknowledged the problems of most immediate interest to the Minnesota and Dakota areas—multipurpose dams, water stability, irrigation, and price supports. "If we have men of good will in Washington . . . I think we will get pretty good answers to these problems."

At the ceremonies beside the new $3,000,000 Garrison dam, President Eisenhower reminded his audience that "too much power" over natural resources should not be concentrated in Washington. The President addressed an open-air audience of about 5,000 persons at a ceremony to mark the closure of the massive earth-filled dam that spans the upper Missouri river.

Mr. Eisenhower told conservation-conscious North Dakotans that "the Federal government has a major rôle to play" in the development of natural resources. But he said the country's founding fathers knew the pitfalls of narrowing control in Federal hands.

"In a great development such as this, the state has a great function to perform," he said.

Municipalities and private enterprise, too, must share in the job, he said. "There is always a place in our country for private enterprise," the President stated. He said that if private enterprise ever is restricted by the Federal government, Americans would find themselves "under some alien form of government."

The structure, started in 1947, is designed to prevent recurrence of severe floods downstream, and to provide irrigation for a million acres of land, generate electric power, provide a recreation area and wild-life refuge, and give North Dakota communities a stable water supply.

The dam will back up water to form a lake about 200 miles long and 14 miles wide when it is finished. The President and his party stopped their car at a high vantage point to survey the mammoth project.

IN his address, he told of his youth in Kansas and of a flood in the Kaw river, a tributary of the Missouri. At that time, he said, he never thought that man would harness "the Big Muddy." But fifty years have passed, he said, and the job is near completion.

He said the benefits of the project would "go to the people," since the dam was built "with the people's money."

The President told "doubters" that the dam will have an integral place in the development of the area. He said he has been informed that requests for power which some day will be generated at Garrison dam already have topped the anticipated supply.

Earlier the same week, Secretary McKay had spelled out in even more detail his policy of equal treatment for customers of power from Federal dams. At Detroit, Oregon, he dedicated a $70,000,000 multipurpose dam in the Willamette basin as a symbol of the idea that there was room in the Pacific Northwest for

both public and private power, "just as long as the agreements we reach between them are worked out to bring forth the maximum benefits to all."

"Rest assured," he told a throng assembled at Detroit dam, on the North Santiam river, "that as long as I am Secretary of the Interior any contract which is signed in my administration will be based on equity—equity to the government, equity to the taxpayers, and equity to the consumer."

For Secretary McKay the dedication of the Detroit project was the realization of part of a dream he and fellow members of the Willamette Basin Commission began transferring to paper nearly twenty years ago. For fifteen years before he became governor in 1949, he served as chairman of the commission which in 1938 obtained authorization of Congress for a series of dams and reservoirs.

"It is folly," said Secretary McKay, "for anyone to say that the Department of Interior or the Bonneville Administration will sign a contract injurious to any party in these transactions. I have lived too long in this region to do something that would hurt it. I have worked too long in support of public power enterprises to upset the pattern of industrial growth that this power program has brought to the Pacific Northwest."

HERE McKay echoed the line he had taken in an explanatory letter to the syndicated newspaper columnist, Drew Pearson, who had attacked his power policies. The columnist had charged that "the electric utility lobby" scored its biggest "triumph" by "persuading its good friend," McKay, to send Bonneville Power Administration "a new contract by which all power from that huge government-built operation is turned over to nine private utilities with the co-ops and municipalities pretty much left out in the cold."

There was much more along the same line, indicating that the private utilities would fix their own rates and be able to veto industrial expansion.

Editorial reaction was negligible on the whole. But to the extent that such publicity did result, newspaper readers were given a realistic view of the McKay public power policy. McKay's letter categorically denied (1) that the Reclamation Law preference for public power agencies had been changed—this could not be done legally; (2) that he had sought to impose contracts on BPA—the originating action was the other way around; (3) that privately owned utilities have any power to determine rates or service for themselves or any other BPA customers—they are subject to Interior contracts and state commission regulation. McKay pledged that the Bonneville contracts, when approved, would abide by all preference clauses and protect all customers.

INTERIOR Secretary McKay took two other actions of special interest to electric utilities. First, in his speech to the Portland (Oregon) Chamber of Commerce, McKay went further than before in approving the combined three dams on the Snake river by the Idaho Power Company. He said this would approximate the power potential of the Hell's Canyon dam.

McKay discounted the advantages claimed by the Democrats and others for the latter.

In another action, McKay announced Central Valley project headquarters would be established in Sacramento, California. This displaces the old Reclamation Bureau Region 2 and its director, Richard L. Boke, whose resignation was announced by McKay. The Secretary said the new Central Valley office will be headed by "a competent engineer." Boke is not an engineer. McKay's choice for a head of the Reclamation Bureau, Marvin C. Nichols, Fort Worth engineer, apparently has been blocked indefinitely at the White House.

## *Panhandle Gas Case Expedited*

THE Federal Power Commission will omit intermediate decision in the $21,400,000 rate increase sought by Panhandle Eastern Pipe Line Company. The

action was requested by the FPC staff and opposed by Panhandle and Michigan Gas Storage Company, an intervener. The commission pointed out that the hearings commenced September 5, 1951, and were not concluded until May 15, 1953, due to necessary recesses. Panhandle has been collecting the increased rates under bond, and subject to refund, since Febraury 20, 1952.

The reason given for FPC's action was that Panhandle's customers are entitled to an early disposition of the proceedings so that they may plan their operations based upon the ultimate determination of the case. In this connection, the commission said that the Natural Gas Act provides that it shall give preference to the hearing and decision of rate questions over other questions pending before it "and decide the same as speedily as possible."

## *Interior Fund Cuts Excluded*

THE Senate Interior Appropriations Subcommittee has recommended $453,796,868 to run the Interior Department for fiscal 1954, an increase of $47,666,525 over the amount voted by the House. The largest single increase was for Reclamation Bureau construction. The subcommittee allowed $123,000,000 for reclamation projects, compared with $108,000,000 voted by the House. Other increases over the House figures included $7,893,000 for construction, operation, and maintenance for the Bonneville Power Administration, and $3,300,000 for transmission lines for the Missouri basin project. The total figure was still well below the Eisenhower budget request of $491,119,200 and Truman budget estimates of $607,336,400.

The subcommittee actually authorized a $179,095,410 reclamation program for the coming year. But because the bureau has never spent more than 84 per cent of the money allowed within a single year, a 10 per cent reduction was imposed for all construction requests. The Senate group added $850,000 for a coal-to-gas "gasification" plant at Morgantown, West Virginia, but upheld House action in denying funds for a similar plant at Louisiana, Missouri.

A $2,000,000 "continuing fund" was allowed by the Senate group for the Southwestern Power Administration, compared with $150,000 voted by the House. The money is used by the administration for power purchases and exchanges to serve co-ops in the area. The amount would finance eight months of operation. The Interior Department, private power companies, and the co-ops will be directed, meanwhile, to work out some arrangement that will make the continuing fund unnecessary.

The Senate group agreed with the House in denying $4,000,000 sought by Minnesota groups for construction of a 235,000-volt "backbone" line to bring power from Missouri river dams to co-ops in western Minnesota, committee aides said.

The Senate group also allowed the Interior Department $250,000 for information and publicity services, compared with a $100,000 limit imposed by the House. The department is spending about $400,000 on the services this year, it was reported.

THE Senate Appropriations Committee has added $3,981,940 to the Agriculture Department funds for fiscal 1954. The bill, as approved by the committee, calls for $13,000,000 more than requested by the Eisenhower administration, but $33,000,000 less than asked by the Truman budget. The committee increased by $17,500,000 the $50,000,000 loan authorization voted by the House for rural telephone construction, and boosted by $15,000,000 loan authorization for rural electrification. The Senate Appropriations Committee did slash funds from some items, including a reduction of $5,000,000 in the watershed protection program added by the House. This program was not included in the estimate of the Eisenhower administration, but was proposed by House proponents of small dams and other works on tributaries of major rivers for flood control and prevention of soil erosion.

# Exchange Calls And Gossip

## *REA Shake-up Announced*

CHANGES in the leadership of the rural telephone loan program have been announced by REA Administrator Ancher Nelsen. The changes involve the appointment of three new division chiefs. Nelsen named Everett C. Weitzell chief of the telephone loans division, succeeding Richard A. Dell, who becomes chief of the program analysis division. John K. O'Shaughnessy was appointed chief of the telephone engineering division, filling a vacancy created by the recent resignation of K. Woodrow Benckert to accept private employment.

Weitzell has been with the REA since 1947 as program analyst, and had been chief of the newly created program analysis division since early this year. Prior to 1947 he had served as regional supervisor of research with the Bureau of Agricultural Economics. O'Shaughnessy has been with REA since 1937, and had been chief of the engineering division since 1946. His previous experience includes engineering and operational work in the telephone industry and with other private utilities. Dell has been with REA since 1937, and was formerly chief of the old applications and loans division, becoming chief of the telephone loans division a year ago.

In announcing the appointments, Nelsen pointed to the fact that "nearly 60 per cent" of the nation's farms are without telephone service and said, "It is our desire to make every possible improvement in our telephone organization in order that maximum efficiency and production can be obtained in carrying out our responsibilities under the Rural Electrification Act."

Prior to the changes made in personnel assignments, Nelsen issued a policy statement regarding rural telephone loans. The statement was made in an interoffice memorandum to all REA division heads and chiefs. Nelsen said the task of extending adequate telephone service to those who want it in rural areas now unserved or inadequately served "can be more effectively and speedily accomplished through industry-wide co-operation." He added that REA is now seeking this co-operation.

"IF existing companies are able and willing to aid in this program, expediting extension of their facilities to provide wanted service, we will welcome their help," Nelsen stated. "This would serve to reduce the need for government loan funds." The REA Administrator asserted that in instances where existing companies are either unable or unwilling to extend rural area service, "the REA will proceed as expeditiously as the supply of trained and qualified man power permits to aid local co-operative groups in meeting the need. We intend to permit of no delay in the rural telephone program because of this effort to bring about industry-wide co-operation," he added.

Nelsen's belief that private industry should play a major rôle in extending rural telephone service echoes the opinion of the House Appropriations Committee as expressed in its recommendations for REA appropriations for fiscal 1954. In its report on the Department of Agriculture Appropriations Bill, the committee declared that REA "should encourage the private telephone industry to expand its service into rural areas." The committee report stated:

The committee recognizes that ade-

quate telephone service is essential to the economy and welfare of the farm population of the nation. In recent years, considerable progress has been made in furnishing telephone service to rural areas. However, much remains to be done and the committee urges the furtherance of the rural telephone program by the Rural Electrification Administration in a sound and equitable manner. In keeping with the spirit and intent of the rural telephone act, the committee believes that REA should more actively encourage the private telephone industry to expand its services into rural areas. There are rural areas which private enterprise cannot or will not serve adequately, and the purpose of the rural telephone program is to make possible the provision of service in such areas. It is the consensus of the committee that REA should advance Federal funds for the provision of the telephone service in rural areas where private enterprise cannot or will not provide adequate service.

## *NET&T Wins Rate Boost*

Two rate increases totaling $1,800,000 annually have been granted the New England Telephone & Telegraph Company, but requests for an additional $237,000 were denied by the Vermont Public Service Commission. Decisions in the long-fought telephone rate cases were made in findings of fact issued by the commission. The findings covered three separate petitions for increases, the oldest for $1,000,000, dating to November, 1948.

If denial of the $237,000 extra revenue each year is made to stand, it will mean a rebate of about $3 per customer. All of the commission's orders are subject to appeal to the Vermont Supreme Court. The $1,000,000 increase requested in 1948, and put into effect under bond January 1, 1949, was allowed in full by the commission. A second request for $800,000 more per year, put into effect July 1, 1951, was also allowed in full except for $150,000 in the year 1952.

The commission said the rates which became effective July 1, 1952, providing an additional $237,000 a year "are not just and reasonable and should be disallowed." Approximately 70,000 Vermont telephone users are affected by the commission findings. The increases allowed by the commission bring the total rate boosts of New England Telephone & Telegraph during the postwar era to $3,117,000. Two previous increases totaling approximately $1,320,000 became effective in 1947 and 1948.

The Vermont commission expressed dissatisfaction with the corporate relationship between the American Telephone and Telegraph Company and its subsidiary, New England Telephone & Telegraph, on grounds that such a relationship was "pregnant with possibilities for abuse and unfair treatment of the public." Commission members admitted that in the present rate cases there was no evidence of bad faith of either AT&T, or its subsidiary, but said they were compelled to "record our dissatisfaction with the arrangement."

The commission criticism was aimed specifically at the method of AT&T's charges to its subsidiaries, under a license contract, for services such as legal advice, advertising, and servicing of securities. These services are paid for by an assessment of one per cent of the gross revenues of the operating companies. "The amount paid to the American Company by its subsidiaries through this assessment bears no specific relation to value received," the commission found. Ultimate effects of the assessment plan, it continued, constitute an assessment by the AT&T imposed on every Vermont telephone user of one cent of each dollar paid for telephone service.

The evidence fails to show, the commission said, the value of the service allocable to Vermont is comparable to its cost. The commission also said, in effect, that Vermont users are paying AT&T for service which they actually never get. "It is our view," the commission declared, "that NET&T should pay the

American Company on a cost basis for such engineering and management services as the subsidiary may require to promote development of telephone enterprise rather than be charged an assessment dependent upon over-all gross revenue."

The commission added, "The practice of a holding company imposing an assessment upon the ratepayers of its subsidiaries is incompatible with the public interest and should be discontinued."

VERMONT commission members were also critical of the relationship between the Bell system and the Western Electric Company, Inc., which supplies the system with all its telephone equipment. The setup, said the commission, puts AT&T in a position where it derives benefit not only from the profit earned by New England Telephone & Telegraph but also at the expense of the subsidiary through a supplier not subject to the control of the commission.

Western Electric played a big part in the hearings on the several rate increase petitions submitted by New England Telephone & Telegraph. An attorney representing the public asked the commission to "reduce the rate base and operating expense to eliminate the excess profits obtained by Western Electric on its sale of materials and equipment to the New England Company." This request was based on the grounds that the Vermont NET&T's plant account and material costs are inflated by such profits exacted in prices charged by its affiliated supplier. Said the commission:

> The intercorporate relationship of New England to Western affords a vehicle capable for such an improper practice. However, such practice has not been made to affirmatively appear. Actual bad faith has not been established. In the absence of such proof, we are not at liberty to take the drastic action which the state has requested.

## *Bills in Congress*

TWO bills have been introduced in the House of Representatives aimed at removing special advantages offered to co-operatives with respect to tax exemptions and low interest rates on money borrowed from the Federal government. A bill introduced by Representative Clardy (Republican, Michigan) (HR 5356) would raise the interest rates on loans made by the Rural Electrification Administration from 2 per cent to 4 per cent. Clardy stated that money now costs the government "at least 3¼ per cent, and administrative costs undoubtedly make the total in excess of the 4 per cent the bill suggests."

In extending his remarks on his bill in the *Congressional Record*, Clardy said:

> This 2 per cent rate has remained unchanged since 1936. No one can argue that this is a fair figure today. The government should not be loaning money at a rate of interest so low as to amount to an additional subsidy paid for by taxpayers generally. It should be placed on a businesslike basis or discontinued.

A bill (HR 5598) to provide tax equity through the taxation of co-operative corporations and to provide tax credits for recipients of dividends from "genuine co-operatives" has been introduced by Representative Davis (Democrat, Tennessee). In a speech requesting the House to support his bill, Davis said the tax exemptions granted to co-operatives give them an "unfair competitive" advantage over corporations and firms that pay full Federal taxes.

The House passed the Agriculture Appropriations Bill carrying $50,000,000 for the REA telephone loan program for fiscal 1954. There was a possibility, at this writing, that the program might receive a greater sum than that agreed upon by the House. The Senate Appropriations Committee recommended an additional $17,500,000 for telephone loans and the chances appeared good that the final figure will rest somewhere between the $50,000,000 voted by the House and the $67,500,000 recommended by the Senate committee.

# Financial News and Comment

By OWEN ELY

## *Higher Capital Costs and the Return on the Rate Base*

BASED on the 13 principal offerings of mortgage bonds and debentures by electric and gas utilities during the month of May (as tabulated in this department, in the last issue) the average yield approximated 3.96 per cent for issues rated Baa to Aaa. The net average cost to the utilities for these particular issues is not yet available but for 16 issues during January-March (see Ebasco Services' "Analysis of Public Utility Financing") the spread was about seven decimal points and the figure would probably be higher at present. Using a figure of 8 for May, the net average cost would be 4.03 per cent. The average yield on five new preferred stock issues during May was 4.97 per cent and (based on first-quarter experience) the net cost to these companies probably approximated 5.10 per cent.

On common stocks there is, of course, room for many adjustments and refinements of method, and the May figures do not afford sufficient evidence. (There were two electric and three gas companies on which the earnings-price ratios averaged about 7 per cent.) Moreover, these price-earnings ratios, as compiled by the Irving Trust Company, were *after* dilution of share earnings for the new issue, which gives an incorrect picture. (The bank is now changing its method of compilation.)

The Ebasco study covering the first quarter gave the following results:

| | *No. of Issues* | *Average E-P Ratio Based on Earn. Before Fin.* | *Earn. After Fin.* |
|---|---|---|---|
| Offered Directly to Public | 10 | 7.8 | 6.9 |
| Offered by Subscription* | 17 | 8.3 | 7.1 |
| Total or Average | 27 | 8.1 | 7.0 |

*Subscription price used as offering price.

THE above figures represent results during a very favorable period. A considerable number of common stock offerings have been made in June, and the cost of these has been increased by the sharp slump in market prices, which in some cases is as high as 15-20 per cent from the recent high levels. It seems safe to assume that cost of equity money would now exceed 9 per cent for the larger utility companies, and a higher rate for the smaller. Moreover, these figures are before allowance for underwriters' compensation and other expenses, which vary

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considerably with the different underwriting arrangements. Ten per cent would, therefore, seem to be a reasonable estimate for the over-all current cost of obtaining utility common stock money, though the figure would be reduced if market conditions improve.

To get a rough approximation of the current cost of capital, we may then apply the above figures as shown in the table below.

A fair rate of return should be somewhat in excess of the cost of money so as to allow for the factor of current inflation (sometimes called "erosion"), assuming that this is not recognized in the rate base.

| | Percentage Of Capital | Estimated Current Cost | Weighted Cost |
|---|---|---|---|
| Funded Debt | 50% | 4.03% | 2.02% |
| Preferred Stock | 15 | 5.10 | .76 |
| Common Stock | 35 | 10.00 | 3.50 |
| | 100% | | 6.28% |

## *Effective Stockholder Relations*

THE American Management Association has recently issued its Research Report No. 21, "A Company Guide to Effective Stockholder Relations," with sections on "The Rôle of the Security Analyst" and "The Impact of Federal Law."[1] The material was assembled by the following group of security analysts and the various sections were written either by the group or at its suggestion:

*John F. Childs, Chairman*

| | |
|---|---|
| Marvin Chandler | Hugh Pastoriza |
| Marjorie H. Cruthers | Donald H. Randell |
| Griffith G. de Noyelles | John W. Spurdle |

An AMA Advisory Committee was appointed to review the manuscript and the final text reflects its comments and suggestions. A foreword was contributed by President Keith Funston of the New York Stock Exchange and a preface by former SEC Chairman Donald Cook.

In "The Essentials of a Balanced Program" Vice President Emery N. Cleaves of Celanese Corporation of America pointed out that a fully integrated program of stockholder relations should be designed to obtain financial support for the company's growth, and to develop sufficient interest in the company's securities to create a good secondary market. He stressed that the program should be an important duty of the company's chief executive, assisted by one or two officers who are thoroughly informed on the company's plans, policies, and current position; to delegate the job to an uninformed spokesman would nullify the effectiveness of the program.

INFORMATION to be furnished to stockholders consists of two kinds: (1) that which the SEC, the Stock Exchange, and other regulatory bodies require to be divulged; and (2) other information which can be disclosed without involving trade secrets, or other matters the disclosure of which would be harmful.

The largest group of stockholders are those who have invested their personal savings and who usually act upon the advice of professional investors or advisers such as bankers, investment counsel, financial analysts, and customers' brokers. Most stockholders take an interest in the company's reports and bulletins but seldom write to the management for further information, depending primarily upon their advisers. Many companies, particularly those which market consumer products, send out additional printed material, and a few of them have tried holding large regional meetings. (A few of the utility companies have used the latter method.) Mr. Cleaves thinks, however, that regional meetings are too expensive and time-consuming, taking into account the number of stockholders reached. He implies that an effective pro-

[1] Sixty pages, $2. 330 West 42d street, New York 36, New York.

gram of stockholder relations might well be directed more particularly to the smaller professional group.

In "A Survey of Methods" he discusses the annual stockholders' report, quarterly and special bulletins, the annual employees' report prepared by some companies, and the annual statistical brochure for analysts and industry specialists. He feels that the quarterly report could concentrate largely on financial operations, while informative bulletins (except where used to stimulate sales of the company's products) may well be issued only when the company has something of very special interest to present. Miscellaneous publications include dividend inserts, commemorative brochures, reprints of speeches, the summary of proceedings at the annual meeting, etc.

A personal letter from the president to the stockholders is sometimes valuable (as an accompaniment to the proxy statement or to announce mergers, refinancing, change in dividend policy, etc.). Letters might also be written to new stockholders and also to those who have sold their stock after holding it for a considerable time—expressing the hope that they will again become partners at some future date. All reasonable letters of complaints should also receive courteous replies.

Advertising in national magazines and newspapers may also be profitably used by large companies whose stockholders are widely distributed. Mr. Cleaves points out that his company uses a full page in each issue of the *Analysts Journal* to summarize some particular philosophy or policy. Formal announcements may include various items such as dividends, the annual report, stockholders' meetings, mergers, etc. The publicity department should cultivate the financial editors of newspapers, trade magazines, and press services, and press meetings should be held from time to time when there is financial news of real interest.

The officer in charge of stockholder relations should also cultivate the good will of the "professional investor" by supplying him with as much financial and other information as can be disclosed, but this should not be overdone so as to arouse suspicions of a "promotional" campaign. Arrangements should be made so that any stockholder or member of the financial community may telephone or call on the company and be received by a capable officer. Plant tours or an annual "open house" for local stockholders and the local public are also frequently worth while, as well as conducted tours for groups of professional investors from the financial centers. Most utility companies recognize the importance of such tours, especially during a period of active fund raising; the tours should be conducted on a businesslike basis and guests should feel free to ask any questions of plant officials.

Miscellaneous forms of advertising, such as radio or television broadcasts,

CURRENT YIELD YARDSTICKS

| | | *1953 Range* | | *1952 Range* | |
|---|---|---|---|---|---|
| | *Recent* | *High* | *Low* | *High* | *Low* |
| U. S. Long-term Bonds—Taxable | 3.10% | 3.15% | 2.78% | 2.78% | 2.56% |
| Utility Bonds—Aaa | 3.41 | 3.41 | 3.01 | 3.08 | 2.93 |
| Aa | 3.59 | 3.59 | 3.07 | 3.11 | 2.99 |
| A | 3.71 | 3.71 | 3.23 | 3.31 | 3.21 |
| Baa | 3.79 | 3.80 | 3.50 | 3.58 | 3.46 |
| Utility Preferred Stocks—High-grade | 4.44 | 4.44 | 4.01 | 4.24 | 3.94 |
| Medium-grade | 4.81 | 4.81 | 4.43 | 4.71 | 4.33 |
| Utility Common Stocks | 5.72 | 5.72 | 5.04 | 5.59 | 5.08 |

Latest available Moody indices are used for utility bonds and preferred stocks; Standard & Poor's indices for government bonds and utility common stocks.

movies, exhibits, Christmas packages, etc., are discussed briefly.

In Chapter 2 the advantages of maintaining close relations with analysts are mentioned as follows:

(1) It may materially shorten the period needed to season securities.

(2) Even for a mature company, it assures a continuing interest and a broader security market.

(3) It should help produce more accurate price levels for the company's securities, with less fluctuation.

(4) It may help to prevent misinterpretation of new developments, particularly when these are unfavorable.

(5) It may also help the company in such matters as changes in the charter, in proxy contests, etc.

PRESIDENT "Al" Tegen of General Public Utilities Corporation discusses the rôle of his own company in fitting the analyst into its stockholder relations program. The company has a carefully prepared mailing list which includes analysts who have requested that their names be placed on it, as well as others whom the company is particularly anxious to reach. These names can be found in the membership lists of the various analysts' societies. (A descriptive list of these societies is contained in a supplement on page 57.) The company issues a quarterly letter and financial statement which reach the analysts in the first mail on the dividend payment date, and if there is a press release this is also included.

The company's annual report contains a very complete financial and statistical section designed principally for analysts, so that the company does not issue a separate "analysts' booklet" (as do some utilities), except on special occasions such as a trip over the property. Mr. Tegen feels that it is not worth while to seek attention for the company through the "huckster's art" — in other words, by new approaches or gimmicks designed by writers of high-pressure advertising copy. But he feels that periodic meetings with analysts are a valuable aid, when conducted by a top official aided by his associates. The talks at these meetings should be extemporaneous — "reading a paper is fatal"; and questions should be answered precisely and frankly.

ANOTHER section, "The Analyst and His Needs," was prepared by the group listed above. This discusses the kind of information desired; the testing of material on a number of analysts, so as to get a cross-section viewpoint; aid in handling emergency developments; types of meetings such as talks before analysts' societies, luncheons and receptions, due diligence meetings, annual stockholder meetings, etc.; such questions as the handling of invitations to receptions or trips; the timing of talks; the problem of "off-the-record" statements, etc. Suggestions are given for handling company tours. Various types of written material used to keep analysts informed are analyzed and discussed, including the prospectus. The importance of establishing a consistent program for contacting the financial community (not one which is merely geared to new financing), and suggestions for building a list of analysts and contacting the rating agencies, are also given.

Section III deals with "The Impact of Federal Law," including the Securities Act of 1933 and the Securities Exchange Act of 1934. This section relates particularly to the technique of handling new security offerings.

This publication should prove a valuable handbook for utility executives, well worth the small cost.

## *Foreign Utility Companies' Reports*

IN a recent issue, the 1952 reports to stockholders of domestic electric utility companies were reviewed and summarized. The reports of some of the leading foreign utilities may also be of interest.

*American & Foreign Power Company* completed its reorganization on February 29, 1952, reducing the parent company's capital to debentures and common

stock. Unfortunately, the company later encountered a series of foreign exchange difficulties in Brazil and Chile, from which countries it receives 27 per cent and 21 per cent of its revenues, respectively. However, with a $300,000,000 loan to Brazil made by the Export-Import Bank at Washington, the financial situation in that country is gradually improving and the parent company is now receiving cash remittances from its Brazilian subsidiaries with greater regularity. Rate increases received by subsidiaries in Chile and Mexico helped to reverse the trend during the last quarter of 1952 and the company's earnings have since continued to improve.

Instead of initiating dividends on the new common stock at the annual rate of 80 cents or $1, as had been forecast, the company paid 10 cents in cash last year, plus one share of new common stock for each 100 shares held. In March, 1953, however, quarterly payments were initiated at the rate of 15 cents, indicating a 60-cent annual rate, which (it is conjectured) may be supplemented by a year-end extra if conditions remain favorable.

AMERICAN & FOREIGN POWER is said to have invested over $100,000,000 in its Argentine properties, but in 1952 only about $9,000,000 in revenues were reported for the subsidiaries in that country, or 5 per cent of the system total. Thus, any improvement in the political situation in the Argentine might prove favorable for Foreign Power's stockholders.

The report stated that "negotiations with the Argentine government for the sale of our Argentine properties were suspended by the government early in 1952 and have remained in abeyance because of the difficult economic situation in that country, brought about principally by two years of serious drought and falling agricultural production. The agricultural outlook, however, has materially improved this year. We are hopeful that the anticipated improvement in Argentina's international payments' position will lead to the renewal of these negotiations and, ultimately, to a settlement of this long-standing matter on a mutually satisfactory basis. Meanwhile, only nominal remittances are being received from the Argentine properties still under our control."

Following are Foreign Power's *pro forma* share earnings for recent years (net operating revenues for the first three months of 1953 were 19 per cent over those of 1952):

| | *Consolidated* | *Parent* |
|---|---|---|
| 1952 | $2.10 | $0.93 |
| 1951 | 1.88 | 1.23 |
| 1950 | 2.39 | 1.32 |
| 1949 | 2.18 | 1.22 |
| 1948 | 1.64 | 0.98 |

BRAZILIAN TRACTION, LIGHT & POWER COMPANY does not give a breakdown of its 1952 revenues of $170,000,000, but some idea of the relative importance of the different services may be obtained by comparing the unit statistics:

| | |
|---|---|
| Electricity (Customers) | 1,057,000 |
| Telephones—Number | 510,000 |
| Gas (Customers) | 278,000 |
| Tramways (Miles Track) | 290 |
| Water (Customers) | 33,000 |

The company in 1952 continued its rapid growth and increasing profits, as indicated by the following table:

| | *Net Profit (Mill.)* | *Per Cent Earned on Investment* | *Share Earnings* |
|---|---|---|---|
| 1952 | $42.2 | 6.1% | $2.96 |
| 1951 | 35.2 | 5.6 | 2.47 |
| 1950 | 33.0 | 5.9 | 2.35 |
| 1949 | 31.8 | 6.4 | 2.26 |
| 1948 | 27.1 | 5.9 | 1.93 |
| 1947 | 26.0 | 5.9 | 1.85 |

While the company suffered of course from the adverse exchange conditions in Brazil, it was probably enabled to continue regular dividends on the common stock by its very strong cash position. At the end of 1952 current assets were nearly double current liabilities, and assets included nearly $44,000,000 cash and government bonds. While a parent company balance sheet is not available, it appears likely that a substantial amount of cash assets are retained at Toronto.

MEXICAN LIGHT & POWER (also with headquarters in Canada) reported 1952 earnings on its common stock of

90 cents a share compared with 44 cents in 1951. The company in October, 1952, was finally able to put into effect a long-delayed rate increase, but no details are given regarding the amounts thus added to revenues or the potential effects on 1953 earnings. The company is also asking the government of Mexico for a higher rate of return on the rate base than originally stipulated. Hydroelectric conditions were favorable during 1952, which probably contributed to the improved showing. An unfavorable current factor is the cash shortage and recent short-term borrowing, but this condition does not appear serious, as the company was reorganized about three years ago. It might, however, prevent payment of a 50-cent dividend on the preferred stock November 1st, reflecting the cumulative feature beginning January 1st.

INTERNATIONAL TELEPHONE & TELEGRAPH CORPORATION has also issued a very interesting 60-page report for 1952. Assembled on one 2-page spread are shown all of the principal IT&T laboratories and factories in 17 foreign countries with a total productive floor space of some 9,000,000 square feet (the largest space being in England, France, and Germany). The ramifications of system operations are so great that it is difficult to summarize them, but following were the sources of 1952 net income:

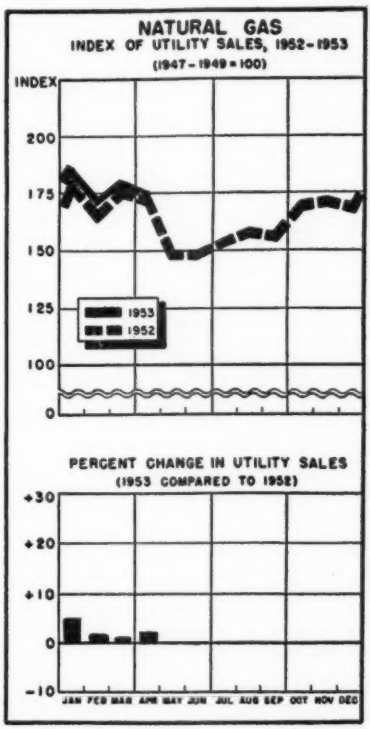
| *Manufacturing (Telephone Equipment, Electronics, etc.)* | *Net Income (Mill.)* | *Per Cent Of Total* |
|---|---|---|
| United States ..... | $11.6 | 53% |
| British Commonwealth | 2.5 | 11 |
| Western Europe .... | 4.9 | 22 |
| South America ..... | .8 | 4 |
| *Communication Services* | | |
| Latin America, etc. .. | 2.3 | 10 |
| | $22.1 | 100% |

The company now has a substantial amount of defense business in this country and also manufactures radios and phonographs, TV sets, refrigerators and freezers, electric ranges, room air conditioners, etc. The utility business, formerly predominant, is now greatly overshadowed by the manufacturing enterprises.

The system now has a backlog of orders amounting to $430,000,000. Share earnings were $3.09 in 1952 *versus* $2.60 in 1951. The financial setup has been greatly improved in recent years, and system net current assets at the end of 1952 approximated $145,000,000 (of which the parent company, however, had only $10,000,000).

## *Railroads Still Lose Heavily on Passenger Service*

IN past years, the writer has several times discussed in the FORTNIGHTLY the staggering losses which the railroads have encountered in their passenger service, which in most cases must be subsidized by the freight service. During World War II, with a very heavy load factor, these losses were largely eliminated or ameliorated, but despite the gen-



eral prosperity of the postwar period, the passenger service is again heavily "in the red."

According to recent press reports, class I railroads last year sustained a net operating loss from passenger train service of $643,000,000, compared with $681,000,000 in the previous year. No important system in the country was able to cover its operating expenses in passenger service, let alone the fixed charges which should be assigned to this division.

The Pennsylvania Railroad now has a vice president who devotes his full-time efforts to a program of trying to reduce red ink in the passenger department. A major difficulty is the reluctance on the part of the state commissions or the Interstate Commerce Commission to permit the railroads to remove unneeded train service. President White of the New York Central (which in 1952 sustained a passenger loss of $51,000,000) recently ran a large advertisement in *The Wall Street Journal*, stating that his road *must* "prune away the unneeded little-used trains." Most of them are branch-line and short-haul locals, needed in the horse-and-buggy days but long since deserted by the vast majority of their passengers because the family car is more flexible for short trips. Some of these now carry more crew than passengers—others average as little as one cent per mile in total revenues from passengers.

The National Association of Railroad and Utilities Commissioners considers passenger deficits the industry's most serious problem, and recently NARUC urged that "regulatory bodies should adhere vigorously to the principle that where the service cannot be made compensatory its abandonment should be permitted."

## FINANCIAL DATA ON ELECTRIC UTILITY STOCKS

| *1952 Rev. (Mill.)* | | | *6/10/53 Price About* | *Div. Rate* | *Current Yield* | *Share Cur. Period* | *Earnings* % Increase* | *12 Mos. Ended* | *Price-Earns. Ratio* | *Dividend Pay-out* |
|---|---|---|---|---|---|---|---|---|---|---|
| $206 | S | American Gas & Elec. ... | 29 | $1.64# | 5.7% | $2.45** | 16% | Apr. | 11.8 | 67% |
| 27 | O | Arizona Public Service .. | 16 | .90 | 5.6 | 1.22 | 44 | Apr. | 13.1 | 74 |
| 7 | O | Arkansas Mo. Power ... | 19 | 1.10 | 5.8 | 2.03 | 65 | Mar. | 9.4 | 54 |
| 23 | S | Atlantic City Elec. ..... | 26 | 1.50 | 5.8 | 1.88 | 13 | Apr. | 13.8 | 80 |
| 5 | O | Bangor Hydro-Elec. ..... | 26 | 1.80 | 6.9 | 2.02 | NC | Apr. | 12.9 | 89 |
| 2 | O | Beverly G. & E. ..... | 52 | 3.25† | 6.3 | 3.43 | 1 | Dec. | 15.2 | 95 |
| 3 | O | Black Hills P. & L. .... | 19 | 1.28 | 6.7 | 1.86 | 11 | Jan. | 10.2 | 69 |
| 79 | B | Boston Edison ..... | 47 | 2.80 | 6.0 | 3.33 | 3 | Mar. | 14.1 | 84 |
| 15 | A | California Elec. Pr. .... | 9 | .60 | 6.7 | .87 | 85 | Mar. | 10.3 | 69 |
| 14 | O | Calif. Oregon Pr. ..... | 26 | 1.60 | 6.2 | 1.64 | 11 | Feb. | 15.9 | 98 |
| 48 | S | Carolina P. & L. ..... | 35 | 2.00# | 5.7 | 2.91 | 10 | Apr. | 12.0 | 69 |
| 21 | S | Central Hudson G. & E. .. | 12 | .70 | 5.8 | .88 | 28 | Mar. | 13.6 | 80 |
| 15 | O | Central Ill. E. & G. ..... | 26 | 1.60 | 6.2 | 2.35 | 8 | Mar. | 11.1 | 68 |
| 25 | S | Central Ill. Light ..... | 36 | 2.20 | 6.1 | 3.07 | 5 | Apr. | 11.7 | 72 |
| 35 | S | Central Ill. P. S. ..... | 18 | 1.20 | 6.7 | 1.56 | 6 | Mar. | 11.5 | 77 |
| 8 | O | Cent. Louisiana Elec. .... | 19 | 1.00# | 5.3 | 1.49 | 14 | Mar. | 12.8 | 67 |
| 25 | O | Central Maine Power ... | 17 | 1.20 | 7.1 | 1.39 | D5 | Apr. | 12.2 | 86 |
| 88 | S | Central & S. W. ..... | 19 | 1.00 | 5.3 | 1.62 | 14 | Mar. | 11.7 | 62 |
| 8 | O | Central Vermont P. S. ... | 13 | .84 | 6.5 | 1.02 | 1 | Mar. | 12.7 | 82 |
| 83 | S | Cincinnati G. & E. ..... | 18 | 1.00# | 5.6 | 1.48 | 1 | Mar. | 12.2 | 68 |
| 5 | O | Citizens Utilities ..... | 11 | .40a | 6.6a | .95 | 20 | Mar. | 11.6 | 42 |
| 87 | S | Cleveland Elec. Illum. ... | 48 | 2.60 | 5.4 | 3.56 | 11 | Mar. | 13.5 | 73 |
| 2 | O | Colorado Cent. Power ... | 20 | 1.12 | 5.6 | 1.48 | 18 | Mar. | 13.5 | 76 |
| 34 | S | Columbus & S. O. E. .... | 24 | 1.40 | 5.8 | 2.18 | 25 | Mar. | 11.0 | 64 |
| 304 | S | Commonwealth Edison ... | 33 | 1.80 | 5.5 | 2.29 | 13 | Mar. | 14.4 | 79 |
| 8 | A | Community Pub. Ser. ... | 18 | 1.00# | 5.6 | 1.49 | 26 | Mar. | 12.1 | 67 |
| 1 | O | Concord Electric ..... | 34 | 2.40 | 7.1 | 1.89 | D25 | Dec. | 18.0 | 127 |
| 50 | O | Connecticut L. & P. .... | 15 | .88† | 5.9 | .96 | 1 | Apr. | 15.6 | 92 |
| 17 | O | Connecticut Power ..... | 37 | 2.25 | 6.1 | 2.40 | 3 | Mar. | 15.4 | 94 |
| 435 | S | Consol. Edison ..... | 35 | 2.20 | 6.3 | 2.81 | 23 | Mar. | 12.5 | 78 |
| 91 | S | Consol. Gas of Balt. ..... | 24 | 1.40 | 5.8 | 1.79 | 10 | Dec. | 13.4 | 78 |
| 137 | S | Consumers Power ..... | 35 | 2.20 | 6.3 | 2.62 | 7 | Apr. | 13.4 | 84 |

| 1952 Rev. (Mill.) | | (Continued) | 6/10/53 Price About | Div. Rate | Current Yield | Share Earnings* Cur. Period | % Increase | 12 Mos. Ended | Price-Earns. Ratio | Dividend Payout |
|---|---|---|---|---|---|---|---|---|---|---|
| 53 | S | Dayton P. & L. | 34 | 2.00 | 5.9 | 2.64 | 1 | Mar. | 12.9 | 76 |
| 26 | S | Delaware P. & L. | 24 | 1.40 | 5.8 | 1.84 | 12 | Mar. | 13.0 | 65 |
| 6 | O | Derby G. & E. | 20 | 1.40 | 7.0 | 1.52 | 5 | Dec. | 13.2 | 92 |
| 173 | S | Detroit Edison | 25 | 1.60 | 6.4 | 1.84 | 23 | Apr. | 13.6 | 87 |
| 98 | A | Duke Power | 33 | 1.50 | 4.5 | 2.51 | 32 | Dec. | 13.1 | 60 |
| 78 | S | Duquesne Light | 26 | 1.60 | 6.2 | 2.20 | 38 | Mar. | 11.8 | 73 |
| 26 | O | Eastern Utilities Assoc. | 28 | 2.00 | 7.1 | 2.57 | 11 | Apr. | 10.9 | 78 |
| 8 | O | El Paso Electric | 22 | 1.20 | 5.5 | 1.97 | 5 | Apr. | 11.2 | 61 |
| 10 | S | Empire Dist. Elec. | 22 | 1.40 | 6.4 | 2.09 | 29 | Mar. | 10.5 | 67 |
| 4 | O | Fitchburg G. & E. | 45 | 3.00 | 6.7 | 3.63 | 16 | Dec. | 12.4 | 83 |
| 28 | S | Florida Power Corp. | 21 | 1.20 | 5.7 | 1.93 | 72 | Mar. | 10.9 | 62 |
| 61 | S | Florida P. & L. | 32 | 1.60 | 5.0 | 2.89 | 15 | Mar. | 11.1 | 55 |
| 145 | S | General Pub. Util. | 24 | 1.60 | 6.7 | 2.24 | 22 | Mar. | 10.7 | 71 |
| 5 | O | Green Mt. Power | 20 | 1.20 | 6.0 | 1.68 | D10 | Mar. | 11.9 | 71 |
| 37 | S | Gulf States Util. | 21 | 1.20 | 5.7 | 1.60 | 29 | Apr. | 13.1 | 75 |
| 19 | A | Hartford E. L. | 51 | 2.75 | 5.4 | 3.06 | 11 | Mar. | 16.7 | 90 |
| 4 | O | Haverhill Electric | 37 | 2.50† | 6.8 | 2.71 | 5 | Dec. | 13.7 | 92 |
| 48 | S | Houston L. & P. | 22 | 1.00 | 4.5 | 1.89 | 24 | Apr. | 11.6 | 53 |
| 19 | S | Idaho Power | 42 | 2.00 | 4.8 | 2.86 | 15 | Mar. | 14.7 | 70 |
| 55 | S | Illinois Power | 37 | 2.20 | 5.9 | 2.71 | 8 | Apr. | 13.7 | 81 |
| 33 | S | Indianapolis P. & L. | 35 | 2.00 | 5.7 | 3.02 | 4 | Mar. | 11.6 | 66 |
| 16 | S | Interstate Power | 9½ | .64 | 6.7 | .89 | 20 | Mar. | 10.7 | 72 |
| 18 | O | Iowa Elec. L. & P. | 18 | 1.10 | 6.1 | 1.79 | 21 | Apr. | 10.1 | 61 |
| 26 | S | Iowa-Ill. G. & E. | 29 | 1.80 | 6.2 | 2.36 | 10 | Mar. | 12.3 | 76 |
| 27 | S | Iowa Power & Light | 23 | 1.40 | 6.1 | 1.82 | 6 | Mar. | 12.6 | 77 |
| 23 | O | Iowa Pub. Service | 22 | 1.40 | 6.4 | 1.64 | — | Apr. | 13.4 | 85 |
| 10 | O | Iowa Southern Util. | 19 | 1.20 | 6.3 | 1.81 | 68 | Apr. | 10.5 | 66 |
| 41 | S | Kansas City P. & L. | 28 | 1.60 | 5.7 | 2.24 | 27 | Apr. | 12.5 | 71 |
| 19 | O | Kansas Gas & Elec. | 33 | 2.00 | 6.1 | 2.97 | 24 | Apr. | 11.1 | 68 |
| 32 | S | Kansas Pr. & Lt. | 17 | 1.12 | 6.6 | 1.43 | 8 | Mar. | 11.9 | 78 |
| 28 | O | Kentucky Utilities | 17 | 1.00 | 5.9 | 1.71 | 16 | Mar. | 9.9 | 58 |
| 6 | O | Lake Superior D. P. | 29 | 2.00 | 6.9 | 2.59 | 13 | Mar. | 11.2 | 77 |
| 6 | O | Lawrence G. & E. | 40 | 2.25† | 5.6 | 2.38 | D10 | Dec. | 16.8 | 95 |
| 59 | S | Long Island Lighting | 16 | .90 | 5.6 | 1.27 | 13 | Mar. | 12.6 | 71 |
| 36 | S | Louisville G. & E. | 35 | 1.80 | 5.1 | 3.05 | 12 | Mar. | 11.5 | 59 |
| 6 | O | Lowell Elec. Lt. | 50 | 3.35† | 6.7 | 3.63 | D2 | Dec. | 13.8 | 92 |
| 8 | O | Lynn G. & E. | 26 | 1.60 | 6.2 | 1.88 | 21 | Dec. | 13.8 | 85 |
| 6 | O | Madison G. & E. | 31 | 1.60 | 5.2 | 2.71 | 10 | Dec. | 11.4 | 59 |
| 3 | A | Maine Public Service | 19 | 1.40 | 7.4 | 1.79 | 16 | Apr. | 10.6 | 78 |
| 4 | O | Michigan G. & E. | 32 | 1.35# | 7.2a | 3.08 | 19 | Mar. | 10.4 | 44 |
| 116 | S | Middle South Util. | 24 | 1.40 | 5.8 | 1.87** | 3 | Apr. | 12.8 | 75 |
| 18 | S | Minnesota P. & L. | 34 | 2.20 | 6.5 | 3.44 | 9 | Apr. | 9.9 | 64 |
| 2 | O | Missouri Edison | 13 | .70 | 5.4 | 1.40 | 23 | Mar. | 9.3 | 50 |
| 8 | A | Missouri P. S. | 22 | 1.20 | 5.5 | 2.09 | 34 | Dec. | 10.5 | 57 |
| 5 | O | Missouri Utilities | 16 | 1.00 | 6.3 | 1.64 | 12 | Mar. | 9.8 | 61 |
| 31 | S | Montana Power | 26 | 1.60 | 6.2 | 2.75 | 8 | Mar. | 9.5 | 58 |
| 15 | A | Mountain States Pr. | 15 | .84 | 5.6 | 1.18 | 16 | Mar. | 12.7 | 71 |
| 105 | S | New England Elec. | 12½ | .90 | 7.2 | 1.25 | 8 | Apr. | 10.0 | 72 |
| 36 | O | New England G. & E. | 14 | 1.00 | 7.1 | 1.40** | 14 | Apr. | 10.0 | 71 |
| 39 | O | New Orleans P. S. | 41 | 2.25 | 5.5 | 2.84 | 9 | Apr. | 14.4 | 79 |
| 2 | O | Newport Electric | 32 | 2.00 | 6.3 | 3.48 | 50 | Apr. | 9.2 | 57 |
| 63 | S | N. Y. State E. & G. | 33 | 1.90 | 5.8 | 2.48 | 12 | Apr. | 13.3 | 77 |
| 189 | S | Niagara Mohawk Power | 25 | 1.60 | 6.4 | 1.78 | 5 | Mar. | 14.0 | 90 |
| 59 | O | Northern Ind. P. S. | 24 | 1.52 | 6.3 | 2.40 | 10 | Apr. | 10.0 | 63 |
| 100 | S | Northern States Pr. | 12 | .70 | 5.8 | 1.02 | 32 | Dec. | 11.8 | 69 |
| 8 | O | Northwestern P. S. | 13 | .90 | 6.9 | 1.40 | 9 | Mar. | 9.3 | 64 |
| 101 | S | Ohio Edison | 35 | 2.20 | 6.3 | 2.85 | 16 | Apr. | 12.3 | 77 |
| 32 | S | Oklahoma G. & E. | 24 | 1.50 | 6.3 | 2.06 | 16 | Mar. | 11.7 | 73 |
| 13 | O | Otter Tail Power | 22 | 1.50 | 6.8 | 2.18 | 28 | Apr. | 10.1 | 69 |
| 314 | S | Pacific G. & E. | 35 | 2.00 | 5.7 | 2.62** | 13 | Mar. | 13.4 | 76 |
| 22 | O | Pacific P. & L. | 18 | 1.10 | 6.1 | 1.84 | 19 | Mar. | 9.8 | 60 |
| 87 | S | Penn. Power & Light | 31 | 2.00 | 6.5 | 2.50 | 5 | Apr. | 12.4 | 80 |

| 1952 Rev. (Mill.) | | (Continued) | 6/10/53 Price About | Div. Rate | Current Yield | Share Earnings* Cur. Period | % Increase | 12 Mos. Ended | Price-Earns. Ratio | Dividend Payout |
|---|---|---|---|---|---|---|---|---|---|---|
| 8 | A | Penn. Water & Power .... | 36 | 2.00 | 5.6 | 2.31 | D9 | Dec. | 15.6 | 87 |
| 175 | S | Philadelphia Elec. ..... | 29 | 1.50 | 5.2 | 2.22 | 6 | Mar. | 13.1 | 68 |
| 29 | O | Portland Gen. Elec. ..... | 30 | 1.80 | 6.0 | 2.45 | 3 | Apr. | 12.2 | 73 |
| 48 | S | Potomac Elec. Power ... | 16 | 1.00 | 6.3 | 1.35 | 5 | Apr. | 11.9 | 74 |
| 52 | S | Pub. Serv. of Colo. ..... | 27 | 1.40 | 5.2 | 2.38 | 11 | Mar. | 11.3 | 59 |
| 214 | S | Pub. Serv. E. & G. ..... | 25 | 1.60 | 6.4 | 2.02 | 20 | Mar. | 12.4 | 79 |
| 54 | S | Pub. Serv. of Ind. ..... | 32 | 1.80 | 5.6 | 2.48 | 15 | Apr. | 12.9 | 73 |
| 17 | O | Public Serv. of N. H. .... | 26 | 1.80 | 6.9 | 2.08 | 19 | Mar. | 12.5 | 87 |
| 8 | O | Public Serv. of N. M. .... | 9 | .56 | 6.2 | .83 | 11 | Mar. | 10.8 | 67 |
| 20 | O | Puget Sound P. & L. .... | 22 | 1.20 | 5.5 | 1.51 | D5 | Mar. | 14.6 | 79 |
| 43 | S | Rochester G. & E. ..... | 36 | 2.24 | 6.2 | 3.42 | 37 | Mar. | 10.5 | 65 |
| 9 | O | Rockland L. & P. ..... | 12 | .60 | 5.0 | .67 | 6 | Mar. | 17.9 | 90 |
| 7 | S | St. Joseph L. & P. ..... | 27 | 1.68 | 6.2 | 2.27 | 8 | Mar. | 11.9 | 74 |
| 33 | O | San Diego G. & E. ..... | 13¾ | .80 | 5.9 | 1.45 | 10 | Apr. | 9.3 | 55 |
| 12 | S | Scranton Electric ..... | 15 | 1.00 | 6.7 | 1.26 | 22 | Apr. | 11.9 | 79 |
| 6 | O | Sierra Pacific Pr. ..... | 26 | 1.60 | 6.2 | 2.77 | 59 | Apr. | 9.4 | 58 |
| 127 | S | So. Calif. Edison ..... | 34 | 2.00 | 5.9 | 2.89 | 26 | Mar. | 11.8 | 69 |
| 27 | S | So. Carolina E. & G. .... | 12 | .70 | 5.8 | .96 | 85 | Mar. | 12.5 | 73 |
| 5 | O | Southern Colo. Pr. ..... | 11 | .70 | 6.4 | .97 | 10 | Feb. | 11.3 | 72 |
| 164 | S | Southern Company ..... | 14 | .80 | 5.7 | 1.20 | 3 | Apr. | 11.7 | 67 |
| 12 | S | So. Indiana G. & E. ..... | 23 | 1.50 | 6.5 | 2.25 | 15 | Mar. | 10.2 | 67 |
| 1 | O | Southern Utah Power ... | 13 | 1.00 | 7.7 | 1.67 | 46 | Dec. | 7.8 | 60 |
| 2 | O | Southwestern E. S. ..... | 16 | .96 | 6.0 | 1.39 | 7 | Feb. | 11.5 | 69 |
| 27 | O | Southwestern P. S. ..... | 19 | 1.20 | 6.3 | 1.50 | 19 | Apr. | 12.7 | 80 |
| 15 | A | Tampa Electric ..... | 43 | 2.40 | 5.6 | 3.44 | 24 | Apr. | 12.5 | 70 |
| 94 | S | Texas Utilities ..... | 38 | 1.88 | 4.9 | 3.29 | 19 | Apr. | 11.6 | 57 |
| 33 | S | Toledo Edison ..... | 12 | .70 | 5.8 | .93 | 7 | Mar. | 12.9 | 75 |
| 8 | O | Tucson G. E. L. & P. .... | 30 | 1.60 | 5.3 | 2.65 | 44 | Mar. | 11.3 | 60 |
| 91 | S | Union Electric of Mo. ... | 20 | 1.20 | 6.0 | 1.25 | 6 | Mar. | 16.0 | 96 |
| 25 | O | United Illuminating ..... | 43 | 2.40† | 5.6 | 2.73 | 15 | Dec. | 15.8 | 88 |
| 2 | O | Upper Peninsula Pr. ..... | 16 | 1.20 | 7.5 | 1.18 | D18 | Mar. | 13.6 | 102 |
| 26 | S | Utah Power & Light .... | 28 | 1.80 | 6.4 | 2.62 | 22 | Apr. | 10.7 | 69 |
| 77 | S | Virginia E. & P. ..... | 24 | 1.40 | 5.8 | 1.80** | 1 | Apr. | 13.3 | 78 |
| 18 | S | Washington Water Pr. .. | 25 | 1.60 | 6.4 | 2.04 | 34 | Apr. | 12.3 | 78 |
| 100 | S | West Penn Elec. ..... | 32 | 2.20 | 6.9 | 3.11 | 14 | Apr. | 10.3 | 71 |
| 56 | O | West Penn Power ..... | 37 | 2.00 | 5.4 | 2.58 | 11 | Mar. | 14.3 | 78 |
| 9 | O | Western Lt. & Tel. ..... | 24 | 1.60 | 6.7 | 2.14 | 18 | Mar. | 11.2 | 75 |
| 20 | O | Western Mass. Cos. ..... | 32 | 2.00 | 6.3 | 2.61 | 30 | Apr. | 12.3 | 77 |
| 79 | S | Wisconsin Elec. Pr. ..... | 25 | 1.40 | 5.6 | 2.04 | 20 | Mar. | 12.3 | 69 |
| 29 | O | Wisconsin P. & L. ..... | 19 | 1.20 | 6.3 | 1.70 | NC | Apr. | 11.2 | 70 |
| 27 | S | Wisconsin Pub. Ser. ..... | 17 | 1.10 | 6.5 | 1.45 | 14 | Mar. | 11.7 | 76 |
| | | Averages ..... | | | 6.1% | | | | 12.2 | 73% |
| *Foreign Companies*†† | | | | | | | | | | |
| 173 | S | Amer. & For. Power .... | 10 | $ .60 | 6.0% | $1.93 | D17% | June | 5.2 | 31% |
| 170 | A | Brazilian Trac. L. & P. .. | 10 | 1.00 | 10.0 | 2.96 | 20 | Dec. | 3.4 | 34 |
| 15 | A | Gatineau Power ..... | 22 | 1.20 | 5.5 | 1.62 | 25 | Dec. | 13.6 | 74 |
| 25 | O | Mexican L. & P. ..... | 3½ | — | — | .44 | 193 | Dec. '51 | 8.0 | — |
| 8 | A | Quebec Power ..... | 20 | 1.20 | 6.0 | 1.28 | 10 | Dec. | 15.6 | 94 |
| 40 | A | Shawinigan Water & Pr. . | 37 | 1.45† | 3.9 | 1.91 | 4 | Dec. | 19.4 | 76 |
| 17 | A | Winnipeg Electric ..... | 46 | 2.40 | 5.2 | 7.09 | 214 | Dec. | 6.5 | 34 |

B—Boston Exchange. A—American Stock Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. D—Decrease. NC—No comparable figures available. *If additional common shares have been recently offered, earnings are adjusted to give effect to the offering. Percentage change is in the balance available for common stock. Tax savings resulting from accelerated amortization of defense facilities are excluded (when separately reported). **Based on average number of shares. a—Also regular annual 3 per cent stock dividend, which is included in the yield. #—Also occasional stock dividends. †Estimated (rate irregular or includes extras). ††With exception of American & Foreign Power, these stocks are also listed in Canada, and the Canadian prices are here used.

# What Others Think

## Edison Electric Institute Holds Annual Convention

THE wide variety of problems affecting the electric industry in both its regulatory and operational aspects was never more in evidence than at the twenty-first annual convention of the Edison Electric Institute, held in Atlantic City, New Jersey, last month. Prominent speakers within and without the industry covered a host of subjects ranging from the threat of government competition to the latest developments in the atomic energy field. B. L. England, retiring president of the institute, opened the convention with a call for fair play in future Federal power policies.

Citing Federal government legislation, administration, interpretation, and judicial proceedings as having "heavily discriminated against investor-owned power companies" and "fostered the nationalization of electric power," England called attention to two important weapons used by government power competitors—"selling power below cost to preference customers" and the exemption of government projects and their preference customers from taxation.

"Local governmental bodies and co-operatives," who are not taxed "to help pay for the facilities built by the Federal government," are nevertheless favored as customers for Federal power over the regulated electric companies and their customers whose "tax money has helped build these projects," England noted.

These agencies, he continued, "are given preference in buying power that is priced to make this preference attractive to them. The practice is obviously designed to lure municipalities and rural districts into setting up power systems of their own to qualify as preference customers under the provisions of Federal law." This, he declared, "is what we mean by unfair competition, and legislative changes are needed to correct the lack of fairness."

INVESTOR-owned power companies, England said, are presently paying "14 per cent of gross revenues to support the Federal government and 9 per cent to support local governments, a total of 23 cents out of every dollar they take in." While it is proper that power companies should pay taxes along with the rest of American business, he continued, it is grossly unfair that their customers should be taxed "through their power bills to support the government and then for the government to exempt by law from taxation those customers who obtain their power from local and national governmental proprietary business."

"Surely there is no fairness in a provision that denies to certain classes of American citizens a government subsidy extended to another class."

Either this tax inequity must be corrected, he asserted, "or, in time, free enterprise in the power field will be destroyed."

"A threat to nationalize and destroy any American business or industry is a threat to destroy the free enterprise in all American business and industry," he warned.

The defenders of such legislative and administrative action contend that it has been necessary to preserve our natural resources for the people, England said. "An attempt is being made to create the impression that only through governmental development of these resources can the interest of the public be served and protected. The facts do not prove this to be the case," he asserted.

"INVESTOR-OWNED companies are under local regulation and control," England pointed out, "and benefits or advantages to be had from the building of power dams or from participation in government-built power projects must of necessity go to their customers."

"In making such developments," he continued, "companies must conform to local sentiment in conserving and using the natural resources. Generally, they must also obtain a license from the Federal Power Commission and make their work conform to the over-all plans of various Federal agencies."

"On the other hand," he emphasized, "no state or local agencies establish and enforce the conditions under which Federal bureaus will carry out their construction plans and operate their power facilities."

"When it comes to the exercise of monopoly, there is nothing to compare with the monopolistic powers that Federal agencies arrogate to themselves."

In speaking of the efficiency and resourcefulness of the free enterprise system, England called attention to the "heartening reversal of the trend from governmental power business in the Northwest toward the strengthening of investor-owned power business in that region." Another encouraging action, he said, was the "bold enterprise of five companies in organizing Electric Energy, Inc., to challenge successfully the monopoly of the Tennessee Valley Authority," and the organization of the Ohio Valley Electric Corporation, formed by fifteen power companies to construct a $400,000,000 power generation project. "Another similar development," he said, "is the program of five power companies in New York state designed to carry out the redevelopment of power at Niagara Falls."

"IN recent months," England said, "there has been a substantial increase in interest rates on long-term debt," and it is critically important that public service commissions "give adequate considerations to changes in the cost of money if we are to carry forward successfully the large construction program we are in the midst of."

"The investor-owned companies," he continued, "spent about $2.6 billion in 1952, and at present construction rates it would appear that they will spend about $3 billion in 1953, of which amount about two-thirds will have to come from the sale of securities or loans." These figures, he said, emphasize the significance of any change in the cost of money.

We will have ample capacity to supply the power demand in the years ahead, England declared. Reports of the EEI Electric Power Survey Committee show that "the entire utility industry will add about 30,000,000 kilowatts in the three years 1953 to 1955, inclusive," and that electrical manufacturers will deliver about 12,500,000 kilowatts of generating equipment this year, of which about 10,000,000 kilowatts will be put in operation.

WALTER H. SAMMIS, president of the Ohio Edison Company, was elected to succeed Mr. England as president of the EEI. In his acceptance speech, Sammis said he would endeavor to foster a greater spirit of community service and area development on the part of the electric utility companies and their personnel, and to further co-operative efforts between the electric utility industry and the Atomic Energy Commission in the development and utilization of atomic power.

Sammis also promised to press for equal treatment for both the investor-owned companies and government-owned power agencies in opportunities for buying power from government dams and in the imposition of taxes. "I shall exert every effort to have the Federal government tax government enterprises competing with the private power industry on a basis equivalent to the electric utility companies," he said. Furthermore, Sammis indicated he would endeavor to stop further expenditures by the Federal government for the building of power plants

and transmission lines which the business-managed electric companies are willing to build. "Government proprietary business is a threat to all private enterprise and without private enterprise there cannot long remain real individual freedom," he said. Acknowledging that only an enlightened public opinion can make these objectives possible, Sammis said he would take every opportunity "to make known to the American people the facts about our business."

EUGENE S. LOUGHLIN, president of the National Association of Railroad and Utilities Commissioners, and chairman of the Connecticut Public Utilities Commission, emphasized the necessity for improvement in utility regulation.

"Without sound regulation," he said, "there can be no really healthy regulated company, and without good corporate health, the service to the public will suffer." Calling attention to "the overwhelming influence which utility regulation—as an instrument of government and as a force of economics—has in our society," Loughlin stressed that "the firmest bulwark between state ownership and the continuation of a private share owner ownership of the utility industry lies in the hands of the regulatory bodies."

"For this reason, if for no other," he said, "the public and the utility industry have a tremendous stake in the health and continuation of good utility regulation."

Speaking on the proper functions of a commission, Loughlin stated that "the customer is entitled to aggressive protection of his interest, while the utility and its investors are entitled to an equally responsible and impartial tribunal."

"The end result at which the public, the company, investor, and commission should aim," he said, should be "the preservation and encouragement of a properly financed and healthy utility structure, ably designed to take advantage of technological developments in the industry and pricing their services at rates which will promote the greatest volume at the lowest unit cost consistent with sound economic principles."

LOUGHLIN pointed out that a commission "must continue to live with the consequences of every decision long after it is rendered" and that a commission's responsibilities "are far greater than those of many courts." Commissions should, therefore, carefully "guard their status as independent quasi judicial agencies."

A great many factors determine the cost of capital to a utility company, he said, among which a "commission with a just reputation for enforcing conservative, fair, and sound rate policies, capitalization ratios, financial reporting, and accounting procedures" is of first importance.

In enumerating the objectives of good regulation, Loughlin called for "a co-operative effort to support good organic legislation, informed, dispassionate, and mature interpretation, adequately staffed and compensated commissions, and a mutually co-operative attitude by companies, commissions, and ratepayers," which would "do much to cement a strong utility structure and thus a strong economy."

"The true protection of our free, private enterprise system in which the utility industry is basic," he said, "is a soundly conceived and independently conducted system of public regulation in the public interest. The alternative, in so far as the utility busines is concerned, is and always will be state ownership and control. It is in this particular respect that both those who are regulating and those who are regulated are united in unalterable opposition."

ALL of the facts which security analysts seek from a company are needed "to solve just two major problems — the quantity of future earnings and the quality of future earnings," Marvin Chandler, president and director of The National Federation of Financial Analysts Societies, told the EEI convention.

When the company has supplied those

facts, it remains for the analyst to consider price, or the extent to which quantity and quality of earnings are already reflected in the price of a security, the vice president of Reis & Chandler, Inc., New York, New York, stated.

He emphasized that in the security analysis field there is diversity of objectives depending upon the investment goal of a specific customer, and no general agreement about how to analyze a security even where the objectives are the same. Therefore, Chandler cautioned, his remarks reflected the information that he, as one of 3,600 analysts, wants to know. His discussion contained "a hundred questions" of which the analyst stated, "I can assure you that posing them was easy. The hard part is giving the answers, and that's what I am leaving to you."

As five factors which he considers "of fundamental importance in reaching the final conclusion as to quantity and quality of earnings," he listed the effect of growth, the measurement of "recession resistancy," regulation, the significance of operating factors, and the measurement of the ability of management.

"In my judgment, the only growth which is significant to the investor is growth in per share earnings," said Chandler. "Growth to me therefore is increased earnings per share resulting from an increased volume of business."

REGARDING regulation, an analyst wants to know a company's attitude and its philosophy, he pointed out. He said the analyst is interested in "whether you intend to seek relief promptly, vigorously, and completely when earnings drop below a reasonable level, or whether you will hold back. You may have an excellent reason for delaying action. Perhaps you can foresee better than we can economic forces which stand a good chance of correcting the situation without regulatory action. You certainly are in a better position than we to judge the proper timing from the viewpoint of public, political, and customer relations. I think that many of us are too prone to judge the matter solely from the investors' viewpoint. You can help us to see the other side to the problem which conditions your thinking."

Included among the questions he asked regarding regulatory philosophy were: Do you believe in a fair value rate base, with an element for current construction costs, or are you afraid of the repercussions of this approach in the event of a major reversal of prices? Do you believe enough in fair value to fight for it before the commission and the courts, if necessary? If you disagree with so-called "cost of capital" approach, what is the substitute method which you recommend as right?

Common appraisals of managerial ability are made by the quality of the company's program for furnishing information to financial analysts, by the personality of the executives, and by a careful study of financial statements, Mr. Chandler acknowledged. As further evidences of managerial ability, he suggested demonstrated initiative and resourcefulness, the esteem which the company enjoys in its community by public and political leaders, and the degree of acceptance of a company's securities by investors.

EDWARD T. MCCORMICK, president of the American Stock Exchange, told the convention that the venture capital outlook "is indeed gloomy under present circumstances. New sources have not come into existence in a volume sufficient to compensate for traditional sources which are drying up," he explained.

McCormick pointed out that "the old wellsprings of venture capital have been drying up because of the progressively increasing tax burden. The higher income groups, which at one time were the favorite source of such funds, have found that the portion of their annual earnings which might otherwise be invested in new enterprises, or in the expansion of seasoned companies, has been taken by the tax collector."

The American Stock Exchange president called equity capital "the basic prop of our economic system" and explored the capital gains tax "which requires that the investment be held for six months and

a day or else the gain that accrues is taxed as ordinary income. And even after the half-year has expired the funds remain locked in generally because of the common aversion to reducing any substantial portion of one's capital by 26 per cent."

He described studies showing how "new equity capital from the issue of stock has amounted to less than $2 billion annually since the Second World War, while corporate debt has increased $71 billion."

THIS great increase in corporate indebtedness, caused in large measure by the shortage of adequate venture capital, presents a serious danger not only to the corporations thus forced to saddle themselves with such loans, but to the entire national economy as well. This danger is a real and threatening cloud overhanging us. Such excessive reliance upon debt as a source of fresh financing is both abnormal and unhealthy.

"It is apparent from available statistics that liquid funds are available in the hands of individuals for equity investment. Liquid savings of individuals in 1952, as estimated by the SEC, totaled $14.6 billion. Total liquid assets of individuals at the end of 1952 have been estimated at $359 billion. This figure does not represent any investment in corporate securities, and $212 billion of the total represented cash or the equivalent of cash; namely, savings bonds, savings and loan shares, and bank accounts."

McCormick called for a "sweeping educational program" to tap the reservoir of funds. "But your financial community cannot do the job alone. It is one thing for the financial community to educate the public generally in the benefits of common stock investment in the general public interest, but we cannot by ourselves remove the impediments to such investment caused by existing tax legislation. Part of the burden must be borne by our representatives in the Federal government."

McCormick hoped that Congress would take action toward "reduction of individual taxes, abolition of excess profits taxes; reduction of the capital gains period and the amount of tax on capital gains; major reduction or abolition of the double tax on dividends and an increase of the capital loss offset."

After asserting that Congress, "for the first time in fifty years, is now working on a complete revision of the tax laws," McCormick stated, "Substantial justice requires that the tax burden be borne equally by all of us. Your financial community and its members and customers do not request relief from their fair share of the burden, but protest the failure to adjust inequitable and destructive taxes."

IN planning for the future of the electric industry, the development of proper leadership is at least as important as the planning for new generating stations, Grover C. Neff, president of the Wisconsin Power & Light Company, said in his address.

The industry is six times larger now than it was in 1920, shown by the $19 billion increase—from less than $4 billion in 1920 to about $23 billion in 1952—in investments in the property and plant account of the country's electric operating companies. "Now it is estimated that during the next eight years the plant account of these electric operating companies will increase nearly as much as it did during the past thirty-two years," Neff said. He pointed out:

> Our industry is one of the big industries of the nation, and it's rapidly getting bigger. As electric service is put to more and more use in homes, stores, and factories, we are becoming more and more important to more and more people. The standards of service, already high, will become higher, because our service plays such a big part in the life of each individual. With this growth, our opportunity for usefulness increases, but along with that goes increased responsibility.

The industry is therefore confronted with the problem of finding leaders to assume these added responsibilities. Customers, stockholders, and employees are all interested in things which good lead-

ership can control—good service, dependable and proper dividends, and pleasant working conditions.

A PLAN, designed to facilitate the choosing of the right people for leadership rôles in an organization, was outlined by Neff. He said this was only one of any number of policies which could be followed by a company. In part, he stated that "we should make an inventory of our own people, pick out those that seem to have the required qualifications, and try to develop them. It will also be necessary to recruit new people who have the fundamental qualities of leadership."

Once a man is hired, the real test of his capabilities will be made. He should start work immediately on the firing line. Records should be kept of his work and of all people who, in your estimation, can hold down a leadership position. This applies not only to the new employee but also to those already on the payroll. Periodic reviews of each leadership candidate's record should be made and discussed with him. He should be told how he's doing "and given helpful criticism on the things he has not done well." Following this or a similar policy will fill leadership positions as they become vacant with little or no trouble. Neff concluded:

> The future success of our industry depends on the kind and type of men and women we put in these top jobs. We, as the present leaders of the electric operating companies, have this great responsibility. We must do whatever is necessary to get a sufficient number of the right kind of people properly trained and prepared to take over the leadership of these rapidly growing companies.

EMPHASIZING that "the life of the power company is inseparably linked with the life of the community," Ashton B. Collins, director of the Reddy Kilowatt Service, stated that there is a strong feeling that area and community development programs are the most significant public relations advancements in the electric industry since World War II.

"All business is local," he said. "The newspaper is local. The utility business is local to the community it serves."

"Thus," Collins continued, "every power company advertising man is alive to his local newspaper as the number one medium of communication."

"In recent years," he said, "advertising and public relations and sales promotion have grown greatly in stature. No longer are they being left to emergency or day-to-day methods." Of the important new trends in these fields in the electric industry, Collins continued, one of the most far-reaching has been the promotion of community and regional programs conducted by electric companies for the betterment of the areas they serve. "Such programs are soundly in the public interest."

"MANY electric companies," he said, "have adopted statewide plans for civic betterment, in which hundreds of communities participate every year." The program of one company has had great success in changing "a winter vacation land into an all-year-round play land and business area."

"Still other companies have been outstandingly successful in their efforts to attract industry to their areas," he said. There are also statewide programs conducted by groups of companies for the support of rural youth groups and the promotion of rural electrification.

"The challenge to the industry for community and area development is an exciting one." However, there are many other facets to the public services provided by electric companies, the speaker said. Among these he listed motion picture films and staffs of lecturers for schools, plant tours for schoolchildren and the public in general, children's booklets on safety and the making of electricity, and talent shows for young people.

In the field of sales, Collins pointed out, "some companies actually act as the hub of the promotional wheel for dealers, concentrating their sales and advertising promotion in behalf of the dealers."

## WHAT OTHERS THINK

STEAM-ELECTRIC power and energy must be the "main reliance for the future" if the electric industry is to meet the tremendous prospective requirements for fulfilling its primary responsibility "to furnish at all times an abundant supply of electricity at the lowest possible cost to the customer consistent with good service," C. N. Phillips, director of research, Ebasco Services Incorporated, New York, New York, told convention delegates.

"Fast-moving inflation has made more difficult the successful discharge of this responsibility," Phillips stated. "So far good management, technological improvements, pooled operations of interconnected systems, and business volume have enabled the electric companies to be the one major industry that has made no material increases in the price of its product. Continuation of this success will require every possible further improvement in efficiency and economy."

To emphasize the extent and scope of the industry and its responsibilities to the nation, Phillips pointed to the tremendous growth of the energy load to date and to the prospective requirements in 1975 as indicated in the report of The President's Materials Policy Commission.

"The generation of every kilowatt hour of potential hydro power — good, bad, and indifferent—would supply only a small portion of the 1975 requirement," Phillips said. "Steam-electric power and energy must be the main reliance of the future."

Noting that 14 steam-electric plants of over 500,000 kilowatts capacity are in service or under construction, compared with four years ago, he emphasized that "increase in size and efficiency of steam-electric generating units has been and will continue to be of great aid in keeping down the cost of electricity."

MUCH better utilization of the tax dollars already spent on Missouri river hydroelectric projects could result from the "worth-while steam-hydro integration" of these government power plants with the new Iowa electric "grid," set up by eight electric companies in the state, N. B. Gussett, president of Iowa Power & Light Company, told electric industry executives at the convention.

Suggesting that a study be initiated by Interior Secretary McKay on the feasibility of such integration, Gussett commented that former Secretary Oscar Chapman had last year refused to meet with electric company representatives "for the purpose of studying the situation."

Gussett remarked that the "grave doubts" then expressed in Interior "as to the desirability of making contracts for integration with power systems beyond the area served by federally owned transmission lines," seemed "a matter of political philosophy rather than of engineering or of business." Now that Secretary McKay has assumed office, Gussett said, "we shall be glad to meet with him at any time to discuss this matter."

In developing what has become known as the "Iowa Plan," Gussett said that the Iowa electric companies had demonstrated to Congress that "present and planned generating and transmission facilities would take care of the needs of Iowa" without the construction of duplicating transmission lines being proposed by the Interior Department, Bureau of Reclamation.

As a result, "the bureau was refused all requested funds to build lines in Iowa," Gussett said. He expressed the hope that this was one of the "decisive actions" and a "turning point in the reckless planning" of a network of Federal transmission lines "which inevitably would have converted a goodly portion of the Midwest into a playground for those dedicated to the nationalization of the electric industry."

GUSSETT charged that, on the basis of a consulting engineer's report received preliminary to the Iowa Plan development, and despite the millions of dollars spent or planned to be spent in government hydro projects on the upper Missouri river, "the amount of dependable year-in and year-out firm power from these developments would be al-

most negligible in the relation to the present and future needs of the Missouri valley." It was also shown, he said, that transmission distances would economically preclude the use of dump power much beyond the Dakotas and Nebraska, and that "Iowa could not count upon receiving a dependable kilowatt or an economical kilowatt hour from those projects in the foreseeable future."

A meeting with the Interior Department to work out steam-hydro integration with the Iowa grid and Missouri river projects "might be an important step toward the development of a long-needed national power policy," Gussett said, "a policy that will be realistic, and designed to produce the greatest good for the greatest number, and which will fit the needs of our country as a whole by co-ordinating our resources and our efforts.

"It is not too much to hope," he concluded, "that it might serve as a foundation stone upon which we can begin again to build that confidence between the government and its people which is so necessary to our continued survival in a world of conflict and unrest."

ONE of the high lights of the convention was the announcement by Gordon Dean, chairman of the Atomic Energy Commission, of a successful demonstration of atomic "breeding"—a process expected ultimately to multiply the world's nuclear fuel resources more than 100 times. Dean called the demonstration a "new milestone" in man's conquest of the atom. He said atomic breeding, accomplished at the AEC's nuclear reactor testing station in Idaho, is as important in its implications for the future as if man had learned to produce 100 gallons of gasoline out of water for every 100 gallons of gasoline burned.

Breeding is the production of atomic fuel simultaneously with the consumption of atomic fuel, Dean explained. Theoretically, it is possible to manufacture more fuel than is consumed. The AEC so far, however, has been able to breed only at the same rate it consumes fissionable materials. Even that gives promise that it will be possible to convert all of the world's uranium into the material of bombs and fuels. As of now, only seven-tenths of one per cent of natural uranium is fissionable. With breeding, however, it is possible to transform all of the nonfissionable kind into atomic fuel, thus vastly multiplying reserves.

Dean cautioned that "this encouraging development" does not mean that man all of a sudden is the possessor of all the atomic resources he could ever want. "The real significance of breeding," he said, "is that it is now possible for mankind ultimately to utilize all of the uranium that can be extracted from the earth's surface for atomic fuel, whether it is fissionable or not in its natural state." In addition, he said, breeding suggests that some day it will be possible to transmute all of the world's thorium into atomic fuel.

The AEC chairman mentioned these new developments by way of illustrating the progress being made toward ultimate production of atomic power for industrial purposes. What is needed now, he told the delegates, is for Congress to lay down the ground rules under which it will be done. Dean deplored charges that the AEC's recent policy statement calling for greater participation in atomic power development by private industry implied an "atomic give-away program."

"This is simply not true," Dean asserted. "It is not a give-away program; it is not even a sell-away program. Under it the commission gives nothing away. It doesn't even sell any of its own facilities. All it would do would be to permit others to own what they themselves have built and paid for, or, in the case of materials, bought and paid for, or manufactured." The sole purpose of the AEC is to get the energies and resources of private industry enlisted in the drive to develop a tremendous new source of power, Dean stated.

ATOMIC energy's promise of a better world can be realized only when industry succeeds in harnessing and directing this vast new resource to useful

ends, Detroit Edison President Walker L. Cisler told the convention.

Cisler described America's competitive industrial systems as the world's finest—in skilled people, in technical and scientific know-how, and in industrial facilities.

"We should endeavor to mobilize all these constructively, effectively, and economically to bring about peacetime uses of atomic energy, and thereby a still better and more peaceful world of the future," he said.

Cisler complimented the U. S. Atomic Energy Commission and commended AEC Chairman Gordon Dean for the group's policy of providing atomic research facilities for studying the technical problems of the atom. Industrial studies have already established the importance of nuclear fission as a new source for industrial heat processes and to furnish steam to run thermal-electric generating plants, he explained.

Conservation of world fuel resources was emphasized as a primary aspect of atomic energy. Cisler noted that utilization of known supplies of uranium and thorium to produce heat and steam for industrial and other purposes would amount to multiplying present fuel resources twenty-three times.

DEFINING industry's responsibilities, Cisler said that in American economy, based on private enterprise, it is private industry's duty to develop new scientific discoveries to the benefit of all.

"The one immediate practical use of the heat from nuclear fission is the generation of electric power," he said. "The electric power industry, I believe, has both a responsibility and a great opportunity."

Cisler pointed out that the Atomic Energy Act of 1946 was primarily an interim measure, intended to apply only until more knowledge concerning peacetime uses of atomic energy became available.

He said he believed the time had come for changes in the law that would fully recognize national security and safety considerations and would at the same time permit private industry to:

1. Build, own, and operate atomic energy plants.
2. Acquire, own, and dispose of fissionable materials and source materials.
3. Use, sell, and distribute end products and by-products produced in an atomic energy reactor facility.
4. Obtain licenses from AEC subject to the requirement that operations thereunder be conducted in compliance with conditions set forth in the license in accordance with standards to be prescribed by the Atomic Energy Act.
5. Attain normal patent and trade secret protection subject to full disclosure to the commission for its own use.

EDGAR H. DIXON, president of Middle South Utilities, Inc., and chairman of the EEI's standing committee on atomic power, submitted a report to the convention on behalf of the committee. Dixon said the committee had concluded that a definite and firm approach should be made to the Atomic Energy Commission by that part of the electric power industry for which the EEI can speak.

The objectives of such an approach, Dixon reported, are to assure the AEC of the industry's legitimate and active interest in the development of atomic power; to point out to the AEC that the industry, from its long experience in power development, has available qualified personnel to participate in the adaptation of atomic energy to power uses; to obtain a full opportunity for the industry to maintain a position so that members of the industry can singly, in groups, or as an industry, participate effectively in the development of atomic energy for power generation; and to request that the AEC continue to co-operate with and assist those firms in the public utility industry which are now or may later become actively engaged in atomic power studies.

The report pointed out, among other things, that the NARUC now has a committee studying problems of regulation arising from participation by the electric power industry in atomic power development.

# The March of Events

## In General

### Industries Protest Pact

THE Bonneville Power Administration's proposed 20-year contract with private utility companies was formally protested recently by industrial customers of Bonneville.

At a meeting in the office of BPA Administrator Paul J. Raver, a committee of industrial consumers handed the Administrator a statement asserting the proposed contract would discourage establishment of new industry in the Northwest and prevent expansion of existing industry supplied by Bonneville.

The industrial consumers objected specifically to a provision of the contract that would have Bonneville agreeing not to furnish power to a new industry or additional power to an existing industry without consent of the private utility company signing the contract.

Meanwhile, Interior Secretary McKay, who was in Portland, Oregon, at the time, said the proposed 20-year contract between Bonneville and private utilities would protect the preferential rights of public customers and there would be no "option on all power produced" given the private utilities. The utilities would not decide who gets any power except that which they themselves have for resale, McKay said.

## Idaho

### Governor Urges Approval

GOVERNOR Len Jordan recently urged the Federal Power Commission to approve the Idaho Power Company's applications for Oxbow, Brownlee, and Hell's Canyon dams on the Snake river between Oregon and Idaho.

"The development of these projects by an investor-owned utility already serving the area would be a genuine contribution toward maximum resource development by local enterprise rather than by Federal appropriation," the governor and State Reclamation Engineer Mark R. Kulp said in a letter to the FPC secretary.

The governor said the FPC had written asking state officials' views on the proposed applications, which will be heard by the commission on July 7th.

"It is sound public policy and consistent with good government to return to private industry an opportunity to meet its responsibility to the people and especially so at this time when Congress is struggling to provide funds for national defense in the face of strong demands for economy, for a balanced budget, and for tax reductions," the governor said.

Jordan said Idaho Power has complied with all Idaho laws regarding the projects and "considering costs and benefits the combination of these three projects is a logical and proper development of the hydroelectric resources of the Snake river between elevation 2,077 and 1,474 and fits readily into basin development for early, as well as future, power production."

# Kansas

## Court Upholds Rate Boost

THE state supreme court for the second time upheld a Kansas Power & Light Company plea to increase certain gas rates.

In addition, the court ordered turned over to the company slightly more than $600,000 of impounded funds, representing charges collected under bond.

Further proceedings affecting the rate boost may be taken in lower courts, but they could not affect the company's right to the released funds, the company's president disclosed.

# Kentucky

## Gas Rate Cut Set Aside

A STATE public service commission order to lower gas rates in Mayfield by $26,500 annually was declared void by the Kentucky Court of Appeals last month.

The Mayfield Gas Company sought reversal of the order on grounds it was entered without a complete public hearing. It claimed it had been denied due process of law. The high court ruled in favor of the gas company, saying a public hearing meant "a completed public hearing."

Commission officials claimed the company was given ample opportunity to be heard and produce evidence, and that constituted a public hearing.

# Maine

## Former Chairman Issues Statement

THE former chairman of the Maine Public Utilities Commission said recently that Maine and New Hampshire Supreme courts, considering the same rate-testing procedure applied by Maine and New Hampshire commissions, came to opposite conclusions.

The result, Frank E. Southard of Augusta said in a prepared statement, was a rate increase for Maine subscribers and a refund for New Hampshire subscribers of the New England Telephone & Telegraph Company.

Southard resigned last March after the Maine court set aside his commission's decree denying the NET&T a Maine rate boost. He said the court's decision meant the commission could no longer protect ratepayers' interests.

The New Hampshire decision on NET&T rates came early last month.

"The Maine Public Utilities Commission," Southard said, "after exhaustive hearings and study, developed certain definite methods for the division of New England's property into intrastate business, supported by local customers, and interstate business, supported by interstate toll users.

"The Maine court said the commission could not do this to a utility and ordered the commission to do as the company had demanded."

This meant using the company's separation figures.

"The New Hampshire Public Utilities Commission used the same methods as developed by the Maine commission," Southard said. "The New Hampshire Supreme Court upheld the state commission in all of its procedures separating the property between interstate and intrastate use."

Southard noted that although the New Hampshire court had the Maine Supreme Court decision before it, it did not consider it to be of sufficient value "to even cite it in the opinion as rendered by the New Hampshire judges."

# Missouri

## Court Upholds Refund Order

AN order of the state public service commission directing Laclede Gas Light Company to refund $2,432,961 to customers in the St. Louis area was upheld recently by Cole County Circuit Judge Sam C. Blair.

The money represents excess customer charges collected by Laclede from 1946 to 1948, when the company faced a possible increase in wholesale rates of its supplier of natural gas, Mississippi River Fuel Corporation.

The higher wholesale rates which Mississippi River Fuel Corporation sought to charge Laclede were reduced by the Federal Power Commission in rulings in 1948 and 1950.

The increased customer rates which Laclede had collected while the wholesale rate cases were pending were ordered refunded by the state commission last May 19th, two years after the last FPC ruling. The refund was held up because of other litigation.

Although Laclede customers are to receive refunds as a result of the commission order and Judge Blair's action, the company was granted new rate increases by the commission last May.

# Virginia

## Candidate Endorses Power Co-ops

THOMAS B. STANLEY, candidate for governor, has announced through his headquarters in Richmond that he has endorsed rural electric co-operatives in a letter to P. N. Bellinger, president of the Virginia Association of Electric Co-operatives, who had asked Stanley to state his position on the co-ops.

Electric co-operatives in Virginia "are performing a vital and useful service in supplying electric power to farms and rural communities," Stanley wrote.

He recalled he has "always supported the basic program of the Rural Electrification Administration."

# Wisconsin

## Legislative Action

THE state senate last month killed a bill which would have prohibited construction of hydroelectric dams, or other obstructions, on 15 rivers and streams in the state to preserve their scenic and recreational advantages.

Opposed by public utilities and co-operatives, the bill was indefinitely postponed by the senate by a vote of 23 to 5.

# Wyoming

## Adopts New Rules of Practice

THE state public service commission has adopted two new rules of practice in line with a recent supreme court amendment to the rules of practice.

The commission's secretary said one rule designates and defines parties to proceedings before the commission and the other governs appearances by these parties or their counsel at hearings held or investigations conducted by the commission.

The new rules of practice were distributed last month to lawyers, utilities, carriers, political subdivisions, and others who appear before the commission. They were scheduled to become effective July 1st. The most important section of the new rules, according to the commission's secretary, was the section governing appearances.

# Progress of Regulation

## Need of Natural Gas for Boiler Fuel Not Shown

An application by Mississippi River Fuel Corporation for authority to construct and operate a line to transmit natural gas on an interruptible basis to Union Electric Company of Missouri for use in firing steam-electric boilers was dismissed by the Federal Power Commission.

The commission said it had repeatedly held that the use of natural gas as boiler fuel is an inferior usage and that, while it is not to be denied in all situations, it should be permitted only on a positive showing that it is required by public convenience and necessity.

Economy of operations is an important consideration in determining whether public convenience and necessity require authorization of a sale of gas such as that proposed, said the commission. The savings to Union Electric, however, would be very small and the advantage to its customers, at best, correspondingly slight. Gas would be purchased at 19½ cents per thousand cubic feet on a straight commodity basis. The price of coal of equivalent heat value was said to be 21 cents.

The company, said the commission, had not demonstrated that natural gas was necessary to the operation of Union Electric's plant. The plant is situated close to several coal-producing areas. It is designed to receive coal primarily by barge and can also be supplied by rail. Its storage facilities will be able to store over a year's supply of coal.

As to an argument that a supply of gas should be available for the plant in the event of a coal strike or other crisis, the commission said that this did not support the need for sustained sales of large volumes of gas when no crisis is present. If the parties believed and it could be shown that stand-by natural gas facilities are needed, precedent might be found in *Re* Northern Nat. Gas Co. (1945) 61 PUR NS 65, where, after denial of an application for facilities to transport a quantity of gas for boiler fuel usage much smaller than that involved in the present case, authorization was granted to use such facilities for deliveries of gas solely for operation of pilot burners, ignition purposes, and as emergency stand-by. *Re Mississippi River Fuel Corp. Docket No. G-1995, Opinion No. 250, May 11, 1953.*

## Commission Recognizes Inflationary Trend But Rejects Allowance for Advantages of System Financing

A telephone company's application for authority to increase rates received limited approval from the District of Columbia commission. The company claimed that the inflationary spiral which started again with the outbreak of the Korean war has resulted in substantial increases in prices in general, two separate wage increases to employees, and an increase in Federal income taxes. This inflationary squeeze, the company said, resulted in earnings which were substantially less than a fair return.

The commission refused to accept an exhibit showing the results of the company's operation as of the end of the year

in which the hearing was held, but did take into consideration the fact that such exhibit indicated a continuing decline in the level of earnings under existing rates.

A proposal by the commission's executive accountant that an adjustment be made to give the company the benefit of its proportionate share of savings in income taxes realized by its parent company (American Telephone and Telegraph Company) as a result of financing its subsidiary companies either with no debt capital (which is the situation with this company) or with a debt ratio lower than that for the system as a whole, was accepted. The amount of the adjustment was determined on the basis of a study prepared by the NARUC Committee on Accounts and Statistics, entitled "Allocation of Bell System Federal Income Taxes."

The commission's discussion on this point follows:

> With the approval of this commission (currently Order No. 3917), the company borrows cash for construcstruction purposes from AT&T, as needed, and delivers to the parent company notes payable five years after date, or prior thereto on demand, bearing interest at the annual rate of 3.25 per cent. Later, permanent financing through the issuance of stock to the parent company is consummated. This method of financing a wholly owned subsidiary by a parent company assumes importance from the standpoint of its effect on income taxes and cost of capital studies as a basis for fixing rates to be paid by the public. This commission has protected the public interest by conditioning its approval of such financing with the provision that the authority granted for financing purposes shall not be considered as approval of the capital structure resulting therefrom in the determination of the rate of return to be allowed the company in any proceeding involving rates charged for telephone service.
>
> As a corollary thereto, rates should not be predicated upon costs which result from income tax charges based upon this type of financing if such charges are greater than those which might be borne by the consumer under a more normal capital structure. The commission finds that the income tax adjustment is proper and in the public interest.

The company claimed that some allowance over and above the license contract fee should be made because of the advantages of the system method of financing. The cost of the parent's holding money available for the use of the operating company was said to be almost one-quarter of a million dollars. The company contended that the difference between the cost to the parent of the license contract services and the one per cent of gross revenues license contract fee would not offset the cost of holding the money available.

The commission's principal objection to this allowance is apparent in this statement:

> This amount . . . is not a cost but a return computed at 6 per cent of . . . the portion of the fund allocated to intrastate operations of the company. This commission does not agree with or contemplate a return allowance on capital funds prior to their investment in property in the service of the public.

The commission ruled that the proof did not establish that a return of 6 per cent represented the actual cost of the parent's holding funds available for the operating company, nor show to what extent the excess of revenues over expenses related to license contract work is noncompensatory from a standpoint of providing a return on such funds. The system method of financing was not proven cheaper than the more common method of short-term bank loans pending permanent financing with a commitment or a draw down arrangement. The commission, in short, was not convinced that the proposed adjustment was proper or in the public interest.

The commission approved the use of the Charleston revision of the NARUC Separations Manual and made allowance

for property held for future use and materials and supplies. Construction work in progress was excluded because of the fact that interest during construction was accrued and charged to the plant on which a return would be allowed when placed in service. No allowance for working capital was claimed.

Neither the payments made to an affiliated supplier (Western Electric) for equipment nor the license contract fee was considered adverse to the public interest. No attempt was made by any witness to determine the cost of license contract service rendered the operating company, and the commission did not believe that such a determination could be made for a given year "in view of the continuing nature and type of research and development services carried on by the parent company through its subsidiary Bell Laboratories."

The commission accepted evidence that the bare cost of capital was 5.86 per cent and that to attract new capital and to give some consideration to the effects of inflation, a return of between 6 and 6.25 per cent should be allowed.

The company's operation under the present rates would yield a return of 5.7 per cent. The proposed rates included an increase in the coin-box rate from 5 to 10 cents. Since the added revenues from this source would be more than sufficient to raise the company's return on the basis of the midyear 1952 test period to somewhere between 6 and 6.25 per cent, the commission refused to allow the company any of the proposed increases in other categories of service.

The commission made the following comment on the company's revenue requirements:

> While an increase in gross revenues of from $522,752 to $953,650 would have provided a return of from 6 per cent to 6.25 per cent on the basis of the midyear 1952 test period, the necessity for providing for the indicated trend in revenues, the expected continuation of the present high level of operating expenses, and the desirability of a stable rate structure in the immediate future dictates that some weight must be given to these matters in the determination of the proper rate structure. To provide some margin for the adverse effect of the above factors on future return, the commission finds and concludes that an increase in gross operating revenues from the intrastate operations of the company in the amount of $1,300,000 is necessary to maintain its financial integrity.

*Re Chesapeake & P. Teleph. Co. PUC No. 1812/51, Formal Case No. 421, Order No. 3991, April 29, 1953.*

## Rule Permitting Denial of Telephone Service for Unlawful Use Approved by State Commission

THE Massachusetts Department of Public Utilities, in dismissing a subscriber's complaint against a telephone company's threatened discontinuance of service, determined that a company regulation permitting discontinuance upon notice from a law enforcement agency of unlawful use was valid.

The subscriber had been arrested for bookmaking and found not guilty after trial.

Notwithstanding this finding, the chief of police sent a letter to the company requesting that the phone be disconnected and removed because of its use for illegal purposes. The company regulation in question reads as follows:

> X. Use of Service for Unlawful Purposes
>
> The service is furnished subject to the condition that it will not be used for an unlawful purpose. Service will not be furnished if any law enforcement agency, acting within its jurisdiction, advises that such service is being used or will be used in violation of law. If the telephone company receives other evidence that such serv-

ice is being or will be so used, it will either discontinue or deny the service or refer the matter to the appropriate law enforcement agency.

The department noted that the majority of the Federal Communications Commission had found a similar tariff provision unreasonable in the Katz Case (1951) 92 PUR NS 1, but chose to follow the reasoning of Commissioner Walker who wrote the minority opinion accepting the conclusions of the examiner reported in the initial Katz decision (1950) 86 PUR NS 65.

The department explained its right to reject the ruling of the Federal commission in these words:

We do not believe that the intent of Congress in establishing the Federal Communications Commission was to divest the states of their power to supervise the conditions under which telephone service is to be furnished merely because a subordinate and incidental use of the local facilities may be in interstate commerce.

The great weight of authority, the department concluded, still sustains the conclusion that this type of tariff provision is fair and reasonable, and that the remedy of the subscriber is to complain to a judicial, and not to an administrative, body. *Re Chick's Variety Store, DPU 10456, May 13, 1953.*

## Authorization of Motor Carrier Service by Railroad Subject to Adequacy of Existing Motor Carrier Service

A RAILROAD'S application for authority to operate as a motor carrier was denied by the West Virginia commission. The railroad proposed to transport all L.C.L. commodities by motor vehicle without the requirement of prior or subsequent rural shipments and without the imposition of key point restrictions. Such a service was said to be merely auxiliary tc and supplemental to rail service and differed so materially from existing service that there would be no direct competition.

Tne commission pointed out that the only difference between the railroad's proposed service and that being rendered by existing carriers was that the railroad will be serving only points which are now its stations at rail rates and on rail bills of lading. There were very few, if any, villages or towns that were not station points in the territory sought to be served. The evidence showed that the proposed service would be practically identical to that being rendered by existing carriers and was, in fact, unduly competitive.

Since the railroad must obtain a certificate for the proposed motor carrier operations, said the commission, consideration must be given to the service offered by existing carriers. The application was then denied because the railroad merely showed that the proposed service would enable it to render a better service and did not show that the service of existing carriers was inadequate or insufficient. *Re Chesapeake & O. R. Co. M. C. Case No. 13012, February 16, 1953.*

## Should Court or Commission Hear Suspected Bookmaker's Request for Telephone Restoration?

THE New Jersey Board of Public Utility Commissioners dismissed a suspected bookmaker's complaint against a telephone company's refusal to restore a service, terminated at the request of a law enforcement official who believed the service was being used for unlawful activities. The company contended that the action was brought in the wrong forum against the wrong party. The subscriber made the following contentions:

> . . . that the respondent had no right to discontinue service on the ground that complainant had a property right

in the telephone service and that the discontinuance was a taking of property without due process of law. He further argued that § 10, Regulation G, "Right to Terminate Service" was unconstitutional.

The telephone regulation, providing that the company would discontinue service upon request from a law enforcement official acting within the scope of his authority, was considered reasonable and not in violation of the Fourteenth Amendment.

The board reaffirmed its rulings in earlier cases involving similar problems and pointed out to the subscriber that before ordering the reinstatement of service, it would require proof of the assent of the same official who originally requested discontinuance.

In sustaining the argument of the company, the court made this comment:

> It appears that the remedy of persons requesting restoration of telephone service that has been discontinued at the request of a law enforcement official in the legal performance of his duty subsequent to the alleged use of the telephone for the transmission of gambling information is in the courts at law or in equity.

*Toms v. New Jersey Bell Teleph. Co. Docket No. 7283, May 20, 1953.*

## Other Important Rulings

THE United States Court of Appeals, Fifth Circuit, dismissed a petition by a pipeline company for review of an order of the Federal Power Commission dismissing its petition for declaratory relief under its rate schedule, on the ground that the commission's order did not purport to be and was not dispositive of any right of the company and therefore the company was not aggrieved so as to give it the right to a judicial review. *United Gas Pipe Line Co. v. Federal Power Commission (CA5th 1953) 203 F2d 78.*

The Wisconsin commission authorized a water company to replace a rule providing that extension and replacement of inadequate pipe be a company investment with a rule providing for customer contributions with a refund provision where the number of customers served by insufficient pipe amounted to 43 per cent of the total number of general service customers and where the company was unable to obtain funds to replace the inadequate pipe. *Fortune v. Iron River Water, Light & Teleph. Co. 2-U-3703, February 4, 1953.*

The Washington commission denied authority to increase motor carrier class rates where the carriers relied mainly upon a comparison of distances and made no attempt to show that the rates relied upon in the comparison were just, fair, and reasonable and where there was no proof that the rates sought to be increased were either unjustly discriminatory or unreasonably preferential. *Re Pacific Inland Tariff Bureau, Inc. Cause No. T-8890, March 25, 1953.*

The Mississippi Supreme Court said that the statutory provision that the proposed transfer of a motor carrier certificate must be "consistent with public interest" was satisfied where the transferor had not exercised his operating rights for a number of years and the transferee's proposed operations would result in improved service to the public. *McGehee et al. v. Wolchansky, 63 So2d 549.*

The Wisconsin commission held that a desire on the part of a few patrons to avoid toll charges is not adequate reason, of itself where service is adequate, to change telephone company boundaries which have been established previously in the interest of the majority of customers of the utilities concerned. *Arndt et al. v. Scandinavia Teleph. Co. et al. 2-U-3928, March 25, 1953.*

Authority to operate as a private carrier within a 20-mile radius of a municipality was granted by the Colorado commission, but with restrictions as to what customers could be served, where the service to be rendered was of a specialized nature and where existing carriers failed to show that their service would be impaired. *Re Handler, Application No. 12218-PP, Decision No. 40257, April 20, 1953.*

Authority to transfer a motor carrier certificate should be denied, said the Arizona Supreme Court, where the certificate provides specifically that headquarters be established in a certain city and the transferee intends to and does operate from another city and where no showing is made that the service of existing carriers in the territory of the latter city is inadequate. *Gibbons v. Arizona Corp. Commission et al. 254 P2d 1024.*

The Wisconsin commission, in authorizing a contested issuance of securities, said that its authorization is permissive only and constitutes no obligation upon the corporation to exercise the authority granted and that, accordingly, it must authorize the issuance if the company has complied with the governing statutes and the proposed issue provides reasonable protection to security purchasers. *Re Monroe County Teleph. Co. 2-SB-515, March 17, 1953.*

The Wisconsin commission held that a rehearing of an interim order is not proper, since, in view of the statutory limitation to one rehearing in any case, a rehearing of such an order would preclude a rehearing of a final order. *Milwaukee v. Milwaukee Gas Light Co. 2-U-3609, March 2, 1953.*

The United States Court of Claims ruled that railroad transportation charges on a shipment of incendiary bombs, shipped without fusing and bursting devices, were billed correctly under the classification as bombs and mines, since the absence of essential parts not affecting the identity of the thing shipped did not alter the fundamental character of the article from a tariff or transportation standpoint. *Union P. R. Co. v. United States, 111 F Supp 266.*

# Titles and Index

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## TITLES



## INDEX

*FEDERAL POWER COMMISSION*

# Re Northern Natural Gas Company

Opinion No. 247, Docket No. G-2085
April 23, 1953

INVESTIGATION *of action of natural gas company in transferring gas reserves to subsidiary in connection with repurchase contracts when certificate condition restricted right to alienate gas reserves; proceeding terminated.*

*Certificates of convenience and necessity, § 73 — Conditions — Retention of gas reserves — Effect of transfer to subsidiary.*

A natural gas company authorized to construct and operate facilities subject to the condition that without prior Commission approval it should not alienate, sell, or transfer any of the natural gas reserves owned or controlled by the company, did not violate such condition by creating a wholly owned subsidiary, transferring its gas leases and wells to the subsidiary, and entering into gas purchase contracts permitting it to draw on the gas reserves to the full limit of production allowables.

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*Rates, § 13 — Jurisdiction of Federal Power Commission — Gas purchase contracts with subsidiary.*

Discussion of the continuing jurisdiction of the Federal Power Commission over gas purchase contracts with a subsidiary to which a natural gas company has transferred wells and leases, p. 99.

*Certificates of convenience and necessity, § 73 — Conditions — Alienation of gas reserves.*

Discussion, in concurring opinion, of the desirability of resolving conflicting contentions as to the authority of the Federal Power Commission to impose conditions restricting the alienation of gas reserves, instead of making a certificate ineffective or revoking it, after the company has transferred gas reserves to a subsidiary with which it has entered into repurchase agreements, p. 100.

*Certificates of convenience and necessity, § 73 — Conditions — Alienation of gas reserves.*

Discussion, in dissenting opinion, of the necessity for the Federal Power Commission to enforce orders granting authority under the Natural Gas Act subject to conditions restricting the right to alienate gas reserves, when the natural gas company has transferred leaseholds and wells to a subsidiary with which it has entered into repurchase agreements, p. 101.

*Certificates of convenience and necessity, § 159 — Consideration of rate matters.*

Discussion, in dissenting opinion, of the consideration of rate matters in proceedings relating to certificates authorizing natural gas facilities under the Natural Gas Act, p. 104.

*Expenses, § 39 — Natural gas — "Fair field price."*

Discussion, in dissenting opinion, of the "fair field price" theory in fixing rates for a natural gas company, p. 107.

*Certificates of convenience and necessity, § 73 — Rate and service factors — Conditions.*

Discussion, in concurring opinion, of rate considerations and the necessity of an adequate gas supply as related to a condition in a certificate restraining the alienation of gas reserves, p. 112.

(BUCHANAN, Chairman, dissents; DRAPER, Commissioner, concurs in result only; SMITH, WIMBERLY, and DOTY, Commissioners, concur in separate opinions.)

By the COMMISSION: When the application of Northern Natural Gas Company (Northern) for a certificate in Docket No. G–1618 was before the Commission in June of 1952, 94 PUR NS 485, the Commission concluded that Northern had not provided sufficient assurance of the dedication of gas supply which both the public interest and the terms of the Natural Gas Act require before a certificate of public convenience and necessity could be issued. The Commission weighed the possibility that Northern might alienate a very sizable portion of the gas supply it had offered to support its proposed project.

On the basis of the record at that time, the Commission might have properly denied Northern's application; however, as we said in Opinion No. 230 [cited above] we felt that the public interest could best be served if we issued a certificate conditioned upon Northern's doing certain affirmative acts with respect to the dedication of gas supply which we considered then, as well as now, as necessary for the issuance of a certificate. Our objective was to assure not only the construction of the project, but also to assure an adequate supply of natural gas to support the project.

In its petition for rehearing filed in Docket No. G–1618 in July of 1952, and by subsequent testimony of its chief executive officer at the rehearing held in September of 1952, Northern attempted to assure us of its willingness to make the required, essential dedication of gas supply and suggested two alternative methods for assuring that dedication.

For the reasons set forth in Opinion No. 230–A, Northern's alternative proposals were rejected. However, we amended our order authorizing a certificate in the manner set forth in paragraph C (1) of our order of October 28, 1952. Again our objective was to protect the public served by Northern by trying to assure an effective dedication of gas supply.

On November 4, 1952, we were advised by Northern of the creation of its wholly owned subsidiary, Northern Natural Gas Producing Company, and the transfer by Northern to Producing Company of the gas leases and wells previously owned by Northern. At that time it appeared to us that Northern might not only have violated the terms of our order of October 28, 1952, but might have negated our express purpose of assuring dedication of the necessary gas supply. Therefore, an investigation was instituted and we ordered Northern to show cause, as set forth in our order of November 7, 1952, Docket No. G–2085. Hearings were held before the examiner in this matter on November 20th, 21st, and 24th, and an oral argument was held before the Com-

mission on January 7, 1953. The record before us, we believe, gives us the information we need with respect to the transactions between Northern and Producing Company and the effect of such transactions upon the dedication of a gas supply to the G–1618 project.

The record in the Docket No. G–2085 proceeding discloses matters which give us serious concern from a public interest standpoint. To these matters we shall refer later. Nevertheless, we are satisfied, on the basis of the facts now before us, that Northern's transfer of its wells and leases to Producing Company and the repurchase of the gas underlying such wells and leases as produced does not jeopardize that dedication of gas supply to the G–1618 project we have tried to assure in the public interest. We reach this decision, in part, by virtue of the terms of paragraph C(1) of our order of October 28, 1952, in Docket No. G–1618. That order provides that Northern cannot, without our prior approval, alienate, sell, or transfer any of the natural gas reserves owned or controlled by Northern. The record shows that all of Northern's six trillion cubic foot gas supply, considered in Docket No. G–1618, is held by Northern under gas purchase contracts. Any sale, transfer, abandonment, cancellation, or other alienation of any of Northern's gas purchase contracts is thus prohibited by our order, except with our prior approval.

In these circumstances, we conclude that the dedication of gas supply which we have sought to assure has not necessarily been impaired by Northern's actions. Northern has in fact given its pledge to its customers and to this Commission that under the gas purchase contracts, entered into with Producing Company, the gas reserves in question are firmly committed to the service of Northern's system. Certainly, if any deliberate action on the part of Northern should result in curtailment of service in the future, any customer of Northern injured would have grounds for damages suffered. We mention this because Northern is aware that this Commission, in determining gas reserves, has always evaluated gas purchase contracts on the same basis as leases and wells owned outright by the natural gas company.

Furthermore, in view of the importance of the legal issue involved, the way is open to Northern for an orderly, judicial challenge of the validity of our order if, upon receipt of an appropriate application from Northern, we should reject any request it might make for the approval of a sale or transfer of natural gas reserves now held under its gas purchase contracts.

We recognize that Northern's actions in transferring wells and leases and repurchasing the gas underlying such wells and leases may raise an important rate question in the future. However, as we have indicated on numerous occasions, this matter is not before us now; nor, has it been before us at any time in Docket No. G–1618.

Purchase contracts entered into between Northern and Producing Company were not negotiated at arm's length. The Commission now has and will continue to have complete jurisdiction over such contracts in any future rate proceeding when it comes to determining Northern's cost of serv-

ice. Northern cannot change that situation by any action it might take. When the occasion arises, the Commission will deal with the rate aspects of this problem and will protect the public interest to the limit of our power under the Natural Gas Act.

The proceedings relating to Docket No. G–1618 have been pending before us for an extended period. We are convinced that the best interests of Northern's customers and the territory served by them require that we take the action which we are in bringing this matter to a conclusion. There are pending applications by Northern which are of the utmost importance to the Middle West served by its system. If the Commission should at this time endeavor to invalidate the certificate isued Northern at Docket No. G–1618, or if we entered an order which would result in unwarranted litigation, we do not believe we would be serving the public interest. Our object in initiating this proceeding was to test the validity of the purchase contracts entered into between Northern and Producing Company with a view of determining if Northern's Gas supply had been impaired. That inquiry failed to disclose that Northern actually had alienated any part of its gas reserves in a manner that does not permit Northern to draw on them to the full limit of production allowables.

For the reasons stated above and upon our review of the entire record at Docket No. G–2085, we find and conclude that the order to show cause issued in this proceeding on November 10, 1952, should be vacated and the investigation instituted thereunder be terminated.

The Commission *orders:*

The order to show cause issued November 10, 1952, be and the same hereby is vacated, and the investigation instituted by said order be and the same hereby is terminated.

Commissioner Draper concurring in the result only. Chairman Buchanan dissenting.

SMITH, Commissioner, concurring: While I concur in the action herein, it would in my opinion be more appropriate for us to proceed in accordance with the course advocated by most of Northern's customers who were intervenors in this proceeding.

For the Commission to hold that the certificate issued in Docket No. G–1618 is now ineffective, or that it should at this time be revoked, obviously would not serve the public interest. It would withdraw legal sanction for the operation of facilities essential to service now being rendered. Furthermore, it would make it impossible for the Commission to even consider, on any firm basis, authorizing the construction and financing of further facilities, including the attachment of additional gas reserves, which Northern now proposes to meet the expanding requirements of the area which it serves. Therefore validation of the outstanding certificate is essential to progress with these matters, which are of the utmost importance to Northern, its customers, and the public served by them.

By our earlier action, however, we imposed conditions which, while in my judgment not indispensably necessary to the issuance of the certificate, were, nevertheless, highly desirable

in the circumstances.[1] It seems to me that the next step would be to seek, through appropriate proceedings, a resolution of conflicting contentions made regarding the Commission's authority to impose certificate conditions of this character. This would have an important bearing upon similar situations which may arise under the Natural Gas Act and, therefore, upon the necessity, in the public interest, of amendatory legislation.

DRAPER, Commissioner, concurring in the result only: While I concur in the action of the majority in vacating its show cause order of November 10, 1952, and terminating the investigation, I do so for the reasons stated in my dissents set forth in Opinion No. 230 and Opinion No. 230–A in Docket No. G–1618 (see 94 PUR NS 485, 507) and not for the reasons set forth in the Commission opinion and order in this proceeding.

BUCHANAN, Chairman, dissenting: I find myself in complete disagreement with my colleagues legally, factually, and philosophically. Philosophically, the fundamental of the administrative process is the integrity of Commission action. For a regulatory Commission to cast doubt upon the integrity of its own orders is to destroy faith in the administrative process, as well as in the Commission, to the detriment of the public interest which it alone is designed to protect. If an order of this Commission imposing specific conditions on Northern can be accepted in part and rejected in part by Northern at its own volition with impunity as has occurred here, then respect for Commission orders by other natural gas companies cannot be expected.

The legal question posed to the Commission by Northern Natural, on the record now before us at this docket, is whether Northern solely at its own volition may reject a part of a certificate order issued by this Commission with which it is in disagreement and accept the part of the same certificate with which it is in agreement without resorting to the legal processes prescribed by the Natural Gas Act, and without first obtaining legal sanction of the courts, so to do. That is the heart of the question, whether the Commission will or will not enforce its own orders.

This record is conclusive that Northern was not in accord with the condition imposed by paragraph C(1), of the order of June 24, 1952, accompanying our Opinion No. 230, 94 PUR NS 485, as modified by our Opinion No. 230–A and order of October 28, 1952. That condition prohibited, without prior approval of the Commission, inter alia, alienation of gas leaseholds and producing gas wells from Northern's ownership which we deemed essential to Northern's service to the public and concerning which Northern had declared its intention to alienate unless this Commission would abandon its cost of service method for gas produced by Northern and as a substitute adopt a commodity or field price approach.[1]

[1] See my concurring opinions in Docket No. G–1618, issued June 24, 1952, 94 PUR NS 485, and October 28, 1952.

[1] Northern, in its 1950 Annual Report to its stockholders, indicated that it "may find it necessary to sell" its owned gas reserves "in place to independent companies or take other steps to protect the [Northern's] stockholders' interest." In its 1951 Annual Report to its stockholders, Northern indicated that

Upon the issuance of our June 24, 1952, order, *supra*, with condition C (1) attached, Northern, in accordance with the terms of § 19(a) of the Natural Gas Act, 15 USCA § 717r (a), in such cases provided, applied for rehearing specifically setting forth its objections to paragraph C(1) as grounds upon which its application was based. Northern thereby signified its intentions to seek court review of the matter in the orderly manner prescribed by § 19(b) of the act if the Commission denied its application for rehearing or, if the Commission upon rehearing rejected Northern's application for modification. Contrary to this lawful and orderly approach to an important issue between Northern on the one part and Northern's customers, the public and the Commission on the other, Northern entered upon a defiant, arbitrary, and capricious course of conduct as shown by this record.

Following the filing of Northern's application for rehearing on July 7, 1952, at Docket No. G–1618, the Commission granted rehearing and reconsideration and particularly as to two alternatives suggested by Northern to the designated paragraph C(1). On October 28, 1952, we issued our Opinion No. 230–A and its accompanying order which specifically rejected the proposals of Northern respecting C(1) and reissued paragraph C(1) with modifications designed to provide a workable answer to Northern's objections. On November 4, 1952, the Commission was informed by telegram[2] from Northern that it had authorized the contractor to proceed with the construction of the G–1618 facilities and also it had alienated and disposed of the leaseholds and

its position as to its owned gas reserves "remains substantially unchanged" from that stated in its 1950 report.

[2] Telegram reads in its pertinent parts as follows:

RE: Proceedings at Docket No. G–1618 and your orders issued therein on June 24, 1952, 94 PUR NS 485, and October 28, 1952, at Opinions Nos. 230 and 230A.

Northern Natural Gas Company, without waiver of, or prejudice to, any of its rights to contest the validity of your orders and opinions, particularly paragraph C(1) thereof as amended by your order issued October 28, 1952, has today directed its construction contractors to commence construction of the G–1618 facilities as soon as they can move necessary machinery to construction sites. We are advised pipeline construction machinery will be moved in on or about November 10, 1952, and that physical construction can be commenced immediately at that time, weather permitting.

This action by Northern is not to be interpreted as any acquiescence by it in either the reasonableness or validity of paragraph C(1) of your orders, as amended. To the contrary, Northern believes that paragraph is beyond the Commission's powers . . . . Further, Northern believes the paragraph in question is unreasonable and unduly restricts Northern's required freedom to trade, exchange, or otherwise dispose of gas purchase contracts . . . .

This will also advise that as of October 31, 1952, Northern Natural Gas Company has sold and transferred to Northern Natural Gas Producing Company, a wholly owned subsidiary of Northern Natural Gas Company, all of the gas leases and wells owned by Northern Natural Gas Company as of that date. At the same time and in order to assure that the natural gas produced from the proven leases formerly owned by Northern Natural Gas Company will remain committed to the service to be rendered from the G–1618 facilities, Northern Natural Gas Producing Company has executed contracts with Northern Natural Gas Company under which Northern Natural Gas Producing Company is selling all of the gas produced from the proven leases so purchased to Northern Natural Gas Company for the life of production and under usual ratable take provisions adhering in the fields from which the gas is produced and at the following current prices: 11 cents per thousand cubic feet for Kansas Hugoton field gas, 8 cents per thousand cubic feet for Texas Panhandle field gas, and 5 cents per thousand cubic feet for Kansas Otis field gas. These contracts also provide that Northern Natural Gas Company has first call on all such gas as may be found under those undeveloped and unproven leases sold and transferred to Northern Natural Gas Producing Company . . . .

gas wells which were the subject matter of paragraph C(1) of our order of October 28, 1952. The proceedings at this docket were initiated for the purposes specified in paragraphs (A) and (B)[3] of the Commission order dated November 10, 1952.

Upon conclusion of the hearing at this docket, the record showed the following facts:

(1) That on October 1, 1952, Northern authorized the creation of a wholly owned subsidiary to be known as Northern Natural Gas Producing Company for the purpose of transferring to it all of Northern's gas producing properties including those which were covered by paragraph C (1) of our order of June 24, 1952. Further action was to be taken as the president of Northern elected to do so.

(2) On October 24, 1952, Northern Natural Gas Producing Company was incorporated pursuant to the action of October 1, 1952.

(3) On October 29, 1952 (on October 28, 1952, our Opinion No. 230–A was issued), Northern took action to consummate the transfer of its gas leaseholds and producing gas wells to Producing Company and the transfer was consummated by October 31, 1952, with Producing Company delivering gas purchase contracts to Northern stemming from the very gas production which was the subject of our paragraph C(1).

(4) On November 4, 1952, Northern advised the Commission by telegram of its action and that it no longer was the owner of any leaseholds and producing wells.

The significance of this chronology is the demonstration of a calculated and deliberate intention on the part of Northern to circumvent the authority of this Commission. The action was taken after the issuance of our Opinion No. 230–A and order of October 28, 1952, which prohibited transfer, conveyance, or alienation of such assets without prior approval of this Commission. No such application was made and no such approval was given. It is my opinion that, under the Natural Gas Act, Northern had available to it two lawful methods by which it could have tested the propriety and integrity of our order of October 28th and in particular the paragraph C(1): (1) Northern could have followed the procedure under § 19 of the Natural Gas Act which it initiated on July 7, 1952, and sought review in the courts of competent jurisdiction; (2) Northern could have accepted the certificate as conditioned by paragraph

[3] The pertinent provisions of our order of November 7, 1952, at Docket G–2085 are:

(A) An investigation be and the same hereby is instituted to determine all relevant facts respecting the sale and transfer by Northern of all of its gas leases and wells as reported by it to the Commission in its telegram and letter dated November 4, 1952, in Docket No. G–1618, and whether such sale and transfer constitute a violation of any of the terms and conditions specified in the Commission's order in Docket No. G–1618, issued June 24, 1952, *supra*, as amended by order issued October 28, 1952, including particularly subparagraph (C)(1).

(B) Northern show cause, if any there be, why the Commission should not find and determine that: (1) Northern by its acts in selling and transferring all of its gas leases and wells, as announced in its telegram of November 4, 1952, in Docket No. G–1618, has so violated the express terms and conditions of the Commission's order issued on June 24, 1952, in Docket No. G–1618, as amended by order issued October 28, 1952, that the certificate issued in such docket is ineffective and accordingly without force and effect; or (2) Northern by its acts and conduct has removed such a substantial portion of the basis upon which was predicated issuance of the certificate in Docket No. G–1618 that such certificate should be revoked.

C(1), begun construction of the G–1618 facilities, which were and are so badly needed for the public service, applied to this Commission under the provision of paragraph C(1) for approval of a transfer of the leaseholds and gas wells etc., to its subsidiary or any other party of its choice, and upon approval or rejection of such application by this Commission, Northern could then have taken the appropriate legal action which the Commission's decision would indicate, i.e., made the transfer if approved, or, if adverse, sought review of our decision in the courts. Northern did not follow either course.

By its actions preceding November 4th, and notice of that date, Northern elected to reject the certificate which we authorized on October 28, 1952, and consequently there is no certificate outstanding. The law is clear to me that Northern cannot pick and choose between sections of our certificate order, accepting the portions it likes and rejecting those which it dislikes.[4] As I have pointed out above, an orderly process for disposing of any such controversy is provided by § 19 of the Natural Gas Act. However, since it did not comply with the Natural Gas Act, it cannot claim the benefit of it.

It is an amazing bit of logic which enables the majority to say that ". . . the way is open to Northern for an orderly, judicial challenge of the validity of our order, if . . . we should reject any request it might make for the approval of a sale or transfer of natural gas reserves now held under its gas purchase contracts,' and, at the same time, ignore Northern's arbitrary and defiant action in violating the same condition of the certificate to which the majority appears to be convinced Northern has now pledged its future adherence. As I have pointed out earlier, the way was open to Northern for an orderly, judicial test of our order of October 28, 1952, at Docket G–1618, but Northern chose to flout the Natural Gas Act, which flouting the majority seemingly condones by their unwillingness to deal affirmatively and firmly with the situation. This abnegation by the Commission of its authority and duties under the act constitutes a regrettable regulatory impasse. I cannot help but feel, to use the apt language of a predecessor Commissioner, ". . . that the majority opinion leaves adequate and effective regulation, in the public interest, . . . suspended in limp and lifeless form from the yardarm of inaction."[5]

Certain statements are made in the majority opinion which in my view do not conform to the facts or mistakenly imply that gas consumers are fully protected under the Commission order dismissing this proceeding.

The majority state:

"We recognize that Northern's actions in transferring wells and leases and repurchasing the gas underlying such wells and leases may raise an important rate question in the future. However, as we have indicated on numerous occasions, this matter is not before us now; nor, has it been before

[4] Federal Power Commission v. Idaho Power Co. (1952) 344 US —, 97 L ed —, 96 PUR NS 45, 73 S Ct 85, reversing (1951) 89 US App DC 1, 89 PUR NS 87, 189 F2d 665.

[5] Re Columbian Fuel Corp. (1940) 2 FPC 200, 217, 35 PUR NS 3, 18.

us at any time in Docket No. G–1618."

This statement is technically correct in the sense that the level of Northern's rates were considered but not determined in that docket. But rate considerations are primary factors always present—directly or indirectly—in Commission proceedings under the Natural Gas Act, be they purely rate proceedings or certificate cases.[6] If it were otherwise, there would be no basis for the Natural Gas Act.[7] To hold as the majority now does that rate matters were not before us is to contradict the majority and concurring opinions at Docket No. G–1618, which speak for themselves on the subject. Indeed the concurring opinion of Commissioner Smith at that docket is devoted mainly to the "fair field price" theory of rate regulation. Furthermore, the threat of alienation of gas leaseholds and producing gas wells in Northern's 1950 and 1951 Annual Reports to Stockholders had no other purpose than to raise the price of gas to the consumer from those sources and to increase the income of the stockholders thereby. Clearly the record in G–1618 and our own statements and findings at that docket refute the above statement of the majority.

The majority also state:

"Purchase contracts entered into between Northern and Producing Company were not negotiated at arm's length. The Commission now has and will continue to have complete jurisdiction over such contracts in any future rate proceeding when it comes to determining Northern's cost of service. Northern cannot change that situation by any action it might take."

It is difficult for me to understand how that statement could be included in any Commission opinion in the light of the history of our condition C(1) in which we all participated. Almost the sole major issue in both the G–1618 and G–2085 proceedings between the Commission and Northern was the announced intention (footnote (1), *supra*) of Northern to sell its leaseholds and gas wells if the Commission would not give recognition to "fair field price" for the gas produced from them. As a matter of fact, the gas purchase contracts which Northern received from Producing Company after the transfer of Northern's leaseholds and gas wells reflected substantially the highest "field price" in the particular fields where such reserves were located, and would represent a substantially higher cost of gas to Northern, its customers, and the ultimate consumer than would the Commission's cost of service method of determining rates which Northern avowedly was seeking to avoid.

The pattern of transferring gas reserves to an affiliated company is not new to us,[8] indeed, the Hugoton Case is the basis of Commissioner Draper's dissent. The transfer from Northern to Producing Company of the leases and wells was only the first step in its stated purposes, as it was when Panhandle transferred similar facilities to Hugoton, its wholly owned subsidiary. The naivete is not at all persuasive. Furthermore, each and

[6] Thirty-second Annual Report, Federal Power Commission 1952—Rate Conditions in Certificate Cases, p. 110.

[7] Section 1(a) Natural Gas Act, 15 USCA § 717(a).

[8] Federal Power Commission v. Panhandle Eastern Pipe Line Co. (1949) 337 US 498, 93 L ed 1499, 81 PUR NS 161, 69 S Ct 1251.

every purchase contract taken back from Producing Company by Northern carries a definite limitation of time within which the prices in the so-called less-than-arm's-length contracts shall be effective. Thereafter the prices will be fixed by negotiation or arbitration, but at not less than the initial contract prices.

It required less than thirty days for Northern to organize Producing Company. It should not require much more time for Northern to extinguish the affiliation and lack of[9] arm's-length bargaining in which my colleagues seemingly place so much faith. The alleged affiliated contracts in this matter are but a fantasy as the basis of Commission control over rates for the future as we have heretofore recognized. Absent collusion, arm's-length bargaining can be instituted any day at the will of Northern, by the passing of control over Producing Company from Northern to other parties, which would block our efforts to pierce the "corporate veil" for rate-making purposes and we know that as well as Northern. Furthermore, what reliance can be placed upon this statement of the Commission in the face of the Commission's indifference to the enforcement of paragraph C(1)? When do we begin?

In excusing their failure to take affirmative action regarding Northern's operation under its G–1618 application without our authority, the majority states:

"Our object in initiating this proceeding was to test the validity of the purchase contracts entered into between Northern and Producing Company with a view of determining if Northern's gas supply had been impaired. This inquiry failed to disclose that Northern actually had alienated any part of its gas reserves in a manner that does not permit Northern to draw on them to the full limit of production allowables."

Obviously, the fore part of this declaration is an effort to restate ordering clauses (A) and (B) of our order of November 10, 1952, instituting the investigation at this Docket No. G–2085. Those clauses have been set forth in full under footnote (2) *supra,* and speak for themselves in complete refutation of the attempted restatement in the majority opinion. The latter part of the quotation above, might be classified as a "negative pregnant." A denial of immediate loss of available reserves but an admission of the grave risk of future loss of those reserves. It does not deny the fact of alienation by Northern of the facilities which were the subject of condition C(1); nor that the alienation was made by Northern without application to this Commission for approval of such alienation; nor that Northern thereby rejected the certificate as surely and certainly as if we had not issued it. Those are the facts of this record beyond perversion by any party to this proceeding. The "restatement" really holds that Northern presently retains control over the same reserves it previously owned at a greatly increased cost to Northern's customers without proper proceedings but nevertheless with Commission consent. Why is it that the Commission does not propose some affirmative action to

[9] Northern's president on this record refused to make any commitment that Northern would not dispose of its stock ownership in Producing Company.

maintain the dignity of our G–1618 order?

As I understand the position taken by Commissioner Smith in his concurring opinion, he would have liked to proceed upon the course advocated by most of the interveners, i.e., that the Commission proceed in the courts under § 20 of the Natural Gas Act, 15 USCA § 717s, to enforce compliance with our order, but permit construction of the G–1618 facilities to continue.

The construction will continue without hindrance by majority action but having in mind the language of his prior concurring opinion at Docket No. G–1618 that "it would be neither right nor within the congressional intent for a natural gas company to be free, at its own discretion, to dispose of essential gas reserves relied upon and necessary to establish in a certificate proceeding its ability and willingness to serve the public," appropriate reasons for his concurrence in the majority's dismissal action might be expected. But I cannot find them.

It is astonishing to me how on the one hand it can be contended that validation of the certificate issued to Northern is essential and, on the other, to urge that steps be taken to resolve the question of the Commission's authority to impose certificate conditions of the character here involved. As I understand his position it is tantamount to saying that Northern should have a valid title to a certificate even though it has violated one of the material covenants on which title rests.

I have never believed that gas service was so essential to the public that this Commission need become a partner in a deliberate illegal action to circumvent the Commission's authority under the Natural Gas Act. The rendering of natural gas service is not above the law.

Commissioner Smith likewise filed a concurring opinion at Docket No. G–1618 which contained an exhaustive discussion of the industry facet of the "fair field price" argument which evidently has had a great appeal to Northern. I deem it appropriate to balance out that presentation by demonstrating here the effect the "fair field price" would have had and now will have on the ultimate consumer. Between the two opinions it may be determined by third parties where the public interest lies.

The rate issue here involved is much greater than the validity of a certificate of public convenience and necessity issued by this Commission. It involves proposals for a fundamental change in the Commission's rate-making policies. Northern, by its action in transferring its gas wells and leases to a subsidiary, has taken the first step in a preconceived plan to carry out its avowed purpose to dispose of its gas reserves unless this Commission allows it the "fair market value" of such reserves in fixing rates.

It is urged by Northern, and by others,[10] that a sound solution to the issue posed in these certificate proceedings is the modification of the Commission's rate-making policies by abandonment of the judicially ap-

[10] Concurring opinions of Commissioner Smith, Opinion No. 228, Docket No. G–1382, et al., June 11, 1952, 95 PUR NS 289, Opinion Nos. 230 (1952) 94 PUR NS 485, and 230–A, Docket No. G–1618, October 28, 1952.

proved cost basis[11] and the allowance to Northern and other companies of a field price or commodity value for the gas which they produce. Similar proposals have been before the Commission in one form or another for the past ten years. Considerable effort was made by the industry to secure legislation in the 80th Congress[12] which would have required us to use the field price approach but such proposals did not receive congressional sanction. The pressure for the change permeated the Natural Gas Investigation, G–580, and split the Commission.[13] The question was also before the Commission in the Pittsburgh & West Virginia Gas Company Rate Case, Docket Nos. G–627, G–635 decided September 2, 1948, 7 FPC 112, 76 PUR NS 65, on review of the examiner's ruling excluding evidence of the fair market value of the gas leaseholds and the fair field value of the gas and the proposal was rejected by the Commission in that case.[14] More recently[15] and subsequent to the concurring opinions above-mentioned, the Commission sustained an examiner's ruling admitting similar evidence in another case. However, since the issue is again presented it is appropriate to set forth my views.

Unlike the normal cost basis of rate making the theory advanced by Northern and others of the natural gas industry is premised on treatment of the gas production department of a pipeline company as a nonutility function. All production facilities are excluded from the rate base and likewise other costs pertaining to production are excluded from the cost of service. There is substituted for such actual costs, plus a fair return, a fictitious operating expense item based upon applying a selected field price or value to the volumes of gas produced from the company's wells. Actually the field price or value theory is akin to the reproduction cost theory of rate making whose infirmities and inequities led to abandonment of its use in most regulatory jurisdictions.[16]

A supply of natural gas is secured by pipeline companies through two methods—one, through purchases under long-term contracts with producers or other pipeline companies and, two, through the ownership of gas leases and producing wells. The supply of many pipeline companies is a combination of the two. It has been the consistent policy of the Commission to allow a natural gas company its actual cost of securing a gas supply from either source. Where gas is purchased from nonaffiliated vendors the actual amount paid by the natural gas company for the gas is allowed as operating expenses. Where the company itself is a producer, there is included in the rate base the cost of all of the company's gas acreage both producing

[11] Federal Power Commission v. Hope Nat. Gas Co. (1944) 320 US 591, 88 L ed 333, 51 PUR NS 193, 64 S Ct 281; Colorado Interstate Gas Co. v. Federal Power Commission (1945) 324 US 581, 89 L ed 1206, 58 PUR NS 65, 65 S Ct 829; Panhandle Eastern Pipe Line Co. v. Federal Power Commission (1945) 324 US 635, 89 L ed 1241, 58 PUR NS 100, 65 S Ct 821.

[12] H. R. 4051 Moore-Rizley Bill.

[13] Report of Commissioners Draper and Olds. Report of Commissioners Smith and Wimberly. Report on Natural Gas Investigations, G–580 (1948).

[14] Olds, Draper, and Buchanan affirming; Smith and Wimberly dissenting.

[15] Re Panhandle Eastern Pipe Line Co., Docket No. G–1116, et al., issued February 9, 1953, 98 PUR NS 114, Draper, Smith, and Wimberly affirming, Buchanan and Doty dissenting.

[16] *Supra.*

and nonproducing. The allowance also includes all exploration and development expense such as delay rentals,[17] the drilling of dry holes, and leasehold abandonment costs.

It is said that this policy discriminates against the pipeline producer since his cost of gas, including a fair return on his investment, is often less on a unit basis than its value as a commodity or the prices being paid under contract to other producers for gas from the very same or adjoining fields. This inequity is ascribed in the first instance to our lack of regulatory jurisdiction over the so-called independent producers under the Phillips decision.[18] It is urged that the investor in the common equity securities of a pipeline company owning gas leases is entitled to the same rewards as the independent operator has secured in recent years through the rising field prices of natural gas. However plausible the proposition may sound, it is completely fallacious for two pungent reasons. First, a pipeline company, unlike the independent producer, has taken no risk in the acquisition and development of gas reserves, as all cost of exploration and the carrying of its investment in nonproducing gas lands is paid for over the years by its customers and eventually by the ultimate ratepayers. A pipeline company is entitled to recover all costs plus a fair return on its investment in leases and wells—practically a guaranteed return—and can secure an increase in rates if necessary to obtain such fair return. Second, the removal of the so-called independent producer from the rate jurisdiction of this Commission under the Phillips decision (*supra*) is revealed in its most fallacious aspect by the assertion of jurisdiction by this Commission over production and gathering facilities of pipeline companies for rate purposes, but leaving the nonpipeline producer to charge as he pleases.[19]

The facts of record in Docket No. G–1618 demonstrate that Northern's stockholders took no risk in the acquisition of gas reserves beyond the character of risk inherent in any public utility enterprise and which is allowed for in the rate of return. The initial gas supply of Northern consisted of gas purchase contracts; the gas leases, and wells held by Northern, prior to their transfer to Producing Company, were acquired since it or its predecessors commenced operation in 1930. From that time until the end of 1951 there was acquired approximately 649,000 acres of leaseholds. Some 229,000 arces were abandoned, sold, or exchanged leaving approximately 420,000 acres in Northern's ownership at December 31, 1951. Of such acreage, producing leaseholds in the Panhandle, Hugoton, and Otis fields account for 156,925 acres at an investment cost of $614,298. Nonproducing (undrilled) leaseholds of 263,229 acres, at an investment cost of $582,-932, account for the balance of the approximately 420,000 acres. The great bulk of the acreage was acquired after the Commission's rate-making policies became known.

[17] This cost represents the amounts paid to the lessees to keep the leases in force prior to drilling the acreage.

[18] Re Phillips Petroleum Co. (1951) Docket No. G–1148, 90 PUR NS 325.

[19] Re Kansas-Colorado Utilities, Docket No. G–1595, Opinion No. 245, issued February 4, 1953, 97 PUR NS 156, the Commission took a contrary view where sales by a pipeline company were made in the field.

From the inception of its operation down to July 1, 1952, Northern expended, in addition to the investment cost above set forth, $1,471,395 for delay rentals, $385,383 for nonproductive well drilling, and $8,058 for other exploration costs. Northern has written off the acquisition costs of abandoned leases amounting to $756,883. In addition, further sums of substantial amount have been expended in connection with the acquisition and holding of leaseholds and for such items as taxes on leaseholds, geological, engineering, and administrative expenses.

Northern's president has acknowledged that all of such costs incurred in the exploration and development of its gas reserves have been recovered by the rates allowed, i.e., have been paid in their entirety by the ultimate consumer. We have included all of Northern's investment in leaseholds in the rate base including its investment in "unproven" and "wild cat" acreage thereby allowing Northern to earn a return on that investment. Specifically in the recent rate proceeding involving Northern (Docket No. G–1382, et al.) we allowed exploration and development costs of $476,000 (95 PUR NS 289, 302). Such sum greatly exceeded Northern's experienced cost for this activity but we allowed the higher amount claimed by Northern as we were aware that Northern was extending its search for other sources of gas far from its reserves in the Panhandle and Hugoton fields.

For more than twenty years customers of Northern have underwritten and paid for in rates the entire cost of acquiring Northern's gas reserves. However, Northern's proposition with which Commissioner Smith concurs[20] means that Northern's customers would in the future buy the gas from these very same leases at its commodity value or at the current prices paid to independent producers. I am unable to understand how such a proposal can be called "fair and equitable." It can be classified in my opinion as resulting in an "unconscionable profit" to and an "unjust enrichment" of the equity holders at the expense of the consumers—the very thing rate regulation is designed to prevent.

The Commission dealt with an analogous proposal in the Panhandle Case (Detroit v. Panhandle Eastern Pipe Line Co. [1942] 3 FPC 273, 284, 45 PUR NS 203, 214). In that rate proceeding Panhandle claimed an allowance in its rate base of $1,585,914 as "the value of gas purchase contracts"—such value being based upon the difference between the then present field price and the lower contract prices of such gas. The Commission said: "It would be a travesty on regulation to permit fictitious amounts of this character to inflate the rate base." In my opinion, it would likewise be a travesty on regulation to permit fictitious amounts of the character proposed by Northern to inflate the operating expenses. Moreover, if natural gas is to be valued as a commodity for rate-making purposes and the cost basis discarded, the gas supply, be it either purchased at the top of the well under a gas purchase contract, or acquired in the ground

[20] Opinion No. 228, Docket No. G–1382, et al. (1952) 95 PUR NS 289; Opinion No. 230 (1952) 94 PUR NS 485; Opinion No. 230–A, Docket No. G–1618, Oct. 28, 1952.

through the purchase of a leasehold, should be priced on the same basis. The reasoning relied on by those who would abandon the cost basis is equally applicable to both categories; the principle is exactly the same and logic would require like treatment, yet the proponents of field price do not face up to this fact.

The effect of the field price proposal upon consumers is detailed in the record in Docket No. G–1618. According to the testimony of Northern's president, the additional cost to its customers for the 1.5 trillion cubic feet of owned reserves over their life would be $60,000,000. These are the leaseholds and gas wells transferred by Northern to Producing Company. It appears, however, that such additional cost is greatly understated on the basis of the cost comparisons used, the failure to recognize the large increases in income taxes which would result, and by reason of further increases in the field price of gas which Northern's president expects to occur.

It is asserted that the Commission's rate-making policy is discouraging and destroying the incentive of natural gas companies to search for and lease gas acreage. I would be the first to admit that incentive is somewhat directly proportional to reward but in the public utility field the incentives for the investor are not speculative profits[21] but reasonable profits coupled with security of capital. Such incentives apply equally as well to the leases and wells as to the pipeline itself or any other facility of a natural gas company. Under the generally accepted cost approach to rate making no greater risk is incurred by a company through its investment in gas leases than is present in an investment in additional pipeline laterals or other facilities to serve its customers. All costs are considered in the fixing of reasonable rates. It would be unthinkable for an electric utility to sell one of its generating stations for more than its cost for the purpose of immediately buying back the electric energy generated by the same station at a cost in excess of its former cost of production. It is equally unthinkable to me that similar types of transactions in utility properties, whether gas reserves, pipelines, substations, or office buildings be sanctioned for the purpose of securing profits above those which normally accrue to utility investors through a return on the money prudently invested in the enterprise, yet that is the course which Northern is attempting to pursue.

Public utilities have a responsibility under the law, and in accord with our American traditions, to supply service to the public at reasonable rates under the umbrella of virtual monopoly. Indeed, as to natural gas companies, it is the mandate of Congress that service be rendered at the "lowest reasonable rates." Section 5(a) of the Natural Gas Act, 15 USCA § 717d(a). Natural gas companies have a duty to meet the market requirements of their customers and to acquire the nec-

[21] Bluefield Water Works & Improv. Co. v. West Virginia Pub. Service Commission, 262 US 679, 692, 693, 67 L ed 1176, PUR1923D 11, 20, 21, 43 S Ct 675. "A public utility . . . has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." Cf: Address of Commissioner Smith before Section of Mineral Law, American Bar Association, San Francisco, Cal., September 16, 1952, and Address of Chairman Buchanan before The New York Society of Security Analysts, New York city, October 8, 1952.

essary gas supply at the lowest reasonable cost. Whether the supply be secured through purchase contracts or by acquisition of leases is a matter for management to decide. Regulation by the Commission must be applied to the enterprise as we find it, but the regulation should be uniform.

I believe there presently exists an adequate incentive for natural gas public utilities to acquire gas reserves either by contract or through the purchase of gas leases. If, however, the investor is not satisfied with a utility return on his investment and desires to assume the risks of a mining venture and reap the possible speculative profits, then the gas utility business is no place for his money. The sale of reserves by a pipeline company for a quick profit may temporarily enhance the stature of the management in the eyes of stockholders but at the same time it does not enhance the reputation of the gas utility industry in the eyes of its customers, regulatory Commissions, or the holders of senior securities, in my opinion.

In any event if the Commission policy be changed and the production phase of a pipeline company's operation be placed in a nonutility category, then such policy should be applicable only to the reserves which were acquired and developed at the expense of the stockholders and not upon the basis of the reserves which have been accumulated over the years at the expense of the ratepayers. Northern's announced intention to divest itself of its gas leaseholds and wells and its subsequent action as developed on the record of Docket Nos. G–1618 and G–2085 constitutes the very "exploitation of the consumer" that the Natural Gas Act was designed to prevent. It is regrettable to me that my colleagues cannot be persuaded of that fact.

In conclusion, upon the record of Docket No. G–2085, it is my opinion that by its course of conduct and its telegram of November 4, 1952, Northern had rejected our condition which was a part of the certificate which prohibited alienation of its gas leaseholds and producing gas wells without prior approval of the Commission. It is further my opinion that Northern had neither legal nor equitable right to accept a part and reject a part of our certificate without recourse to the remedies provided by the Natural Gas Act. The effect of Northern's conduct and its telegraphic notice thereof was to reject our certificate in toto and consequently it is presently without any lawful authority at this time to construct and operate the G–1618 facilities in whole or in part as if our order of October 28, 1952, had never issued.

The majority action in this docket might be compared with the traffic policeman who allows all of the traffic to accumulate in the middle of the street intersection and then abandons it to its own devices.

The matter should be referred to the attorney general for appropriate action and the Commission should move on its own motion to prohibit the unauthorized operation and construction of the G–1618 facilities under the appropriate provisions of the Natural Gas Act.

For these reasons I register my dissent.

WIMBERLY and DOTY, Commissioners, concurring: Chairman Buchanan—who filed a rate-case dissent in this certificate proceeding—joined

with us in pointing out in Opinion No. 230–A that the Docket No. G–1618 proceeding was of course not a rate but a certificate proceeding. Northern had claimed the right to dispose of its reserves should the Commission in the future not authorize rates commensurate with the prevailing market value of natural gas. Noting this fact in his separate concurrence in Opinion No. 230–A and expressing his "complete accord" with that opinion, Chairman Buchanan pointedly said that *"Our consideration of Northern's application depends basically on an assured supply of natural gas."*[1]

Properly, we say, for even a most casual examination of Opinion No. 230–A proves Chairman Buchanan correct in his assertion—which he apparently now has repudiated—that supply was the basic consideration. The Commission's concern was with Northern's wish to be able "to divest itself of the reserves it owns" and with our purpose "to assure the continued availability" of those reserves on which Northern depended.

Likewise, Opinion No. 230 (1952) 94 PUR NS 485, 498, 499, reveals a careful and studied deliberation upon the "adequacy of the gas supply showing made by Northern." The Commission—Chairman Buchanan joining—spoke of the necessity that the reserves "continue to be available" to Northern (at p. 501), and of the necessity that the reserves be "firmly committed" in view of the record indications that Northern might "sell or otherwise alienate" a substantial part of those reserves (at p. 501). The fact was adverted to that Northern had "under consideration the alienation" of nearly 25 per cent of its controlled reserves (at p. 502). This the Commission spoke of as a possibility that Northern's disposition of its reserves might result in "their not being available" for the service proposed (at p. 502). Similarly, it referred to Northern's conditional "intention to divest itself" of some of its reserves (at p. 502), and to the need for a gas-supply condition in the certificate order respecting the reserves shown on the record to be "controlled" by Northern.

The foregoing are illustrative of the considerations spelling out the background of the certificate condition now before us, and in these Chairman Buchanan unqualifiedly concurred. But in his present dissent he somehow concludes that the majority contradicts itself in now holding "that rate matters were not before us" in the Docket No. G–1618 proceeding. Suffice it to say that the concern of the majority was with supply as distinguished from price—in which views until now Chairman Buchanan concurred—is expressly set forth for all who will read.

Assurances of continued availability of an adequate supply was an expressed purpose in the Docket No. G–1618 proceeding. On the present record, we do not find a basis for concluding that this purpose has been frustrated. Therefore, we are unwilling to paralyze Northern's system—which might be a result of the course suggested by Chairman Buchanan—and stop gas service to the thousands of consumers dependent on it, even if some might argue that Northern had violated the certificate condition.

But since the record here does not show a thwarting of the basic gas-

[1] Emphasis supplied.

supply purpose, which the majority sought to assure by the Docket No. G–1618 certificate condition, we need not deal with such frightful public consequences which would arise here only from a technical approach.

If the Commission is reasonably satisfied that Northern has not impaired its ability to render the service authorized at Docket No. G–1618, it can do nothing else but vacate the show-cause order and thereby permit the company to proceed with its plans to furnish additional natural gas to the large midwestern territory it serves. If Chairman Buchanan is convinced that Northern has denied to itself the full use of the 25 per cent of its gas reserves here under discussion, he should have based his dissent on that proposition. Most of his entire discourse deals with rate matters not before us on this record.

In the meantime, the action of the majority has made it possible for Northern to proceed with its plans to serve its general utility customers as well as the industrial customers that are essential to the economic welfare of the Middle West. We repeat that any other result would be tragic in that it would choke off natural gas service to Northern's area simply to settle—or attempt to settle—differences of opinion concerning rate-making policies which are not before the Commission in this proceeding.

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*FEDERAL POWER COMMISSION*

# Re Panhandle Eastern Pipe Line Company et al.

Docket Nos. G–1116, G–1240, G–1317, G–1344, G–1417, et al.
February 9, 1953

APPEAL *to Commission from certain rulings of presiding examiner with respect to admissibility of evidence; rulings admitting evidence into record sustained.*

*Expenses, § 135 — Natural gas production — Commodity value of gas — Evidence.*

Evidence pertaining to the weighted average field prices and the so-called fair field price of natural gas, admitted in evidence by a presiding examiner in a natural gas rate proceeding, should remain in the record for consideration in the ultimate decision of the proceedings.

(BUCHANAN, Chairman, and DOTY, Commissioner, dissent.)

By the COMMISSION: During the course of the hearing in the above-docketed proceedings, Commission staff counsel, on January 30, 1953,

filed with the Commission an appeal from certain rulings of the presiding examiner made during the hearing admitting into the record certain evidence pertaining to the "weighted average field prices" and the so-called "fair field price" of natural gas, which was being introduced by oral and exhibit testimony by Panhandle Eastern Pipe Line Company (Panhandle). Earlier in the hearing on March 20, 1950, and on September 6, 1952, Panhandle had presented testimony pertaining to the "attributed well head value" of natural gas which it produces in Oklahoma and Kansas and "average well head" price of natural gas which it produces in Texas, and current prices there being paid for natural gas produced in the three states. While Commission staff counsel has had a continuing objection to all of such testimony, no appeal from the ruling of the presiding examiner admitting such testimony has heretofore been filed with the Commission.

Upon consideration of Commission staff counsel's appeal, the evidence objected to, and sought to be stricken by motion, we are of the opinion that such evidence should remain in the record for consideration in the ultimate decision of the proceedings. We desire to make it clear, however, that at this time we decide no more than that the evidence should remain in the record. This evidence, like all other in the record, must be evaluated and weighed in the light of the provisions of the Natural Gas Act, at the time of final decision of the issues raised and the arguments made by the parties.

For the reasons hereinbefore set forth, the Commission *orders:* The appeal of Commission staff counsel from the rulings of the presiding examiner be and it hereby is denied, and the rulings of the presiding examiner admitting into the record the afore-mentioned evidence are sustained.

BUCHANAN, Chairman, dissenting: The question posed before the Commission in this case is precisely the same question that was before it in Pittsburgh v. Pittsburgh & W. V. Gas Co. (1948) Docket Nos. G–627 and G–635, 7 FPC 112, 137, 76 PUR NS 65. In that proceeding the Commission upheld the decision of the presiding examiner in rejecting evidence as to field prices of natural gas similar to that offered here.[1] It is clear from the majority action reversing the Pittsburgh Case, *supra,* that the Commission, in administering the Natural Gas Act, has reached another fork in the regulatory road. Whether the Commission's decision will lead to the abandonment of its present cost of service policy, I do not pretend to know, but for the sake of the consumers of natural gas I sincerely hope not. It must be admitted that this change is a long step toward such abandonment.

The Commission has consistently adhered to the cost basis of regulation for, as we said in the Pittsburgh Case, *supra,* 7 FPC at p. 121, 76 PUR NS at p. 73:

". . . we believed it to be just to consumers and utilities alike, and this system will serve, we believe, during periods of depression or inflation to secure the continuity of an adequate gas supply and the financial soundness

[1] The staff objection also ran to a certain order of the Oklahoma Corporation Commission, but my dissent does not run to the receipt of such order in evidence in this case.

of the natural gas companies themselves."

There is no question of our authority to fix just and reasonable rates upon the basis of including the production and gathering department of the natural gas company in the rate base and treating such department as an integral part of the utility's operations which, of course, it is. (Canadian River Gas Co. v. Federal Power Commission [1945] 324 US 581, 89 L ed 1206, 58 PUR NS 65, 65 S Ct 829.) Likewise, there is no question of our authority to exclude evidence of fair value. See Panhandle Eastern Pipe Line Co. v. Federal Power Commission (CCA8th 1944) 54 PUR NS 26, 143 F2d 488, affirmed (1945) 324 US 635, 89 L ed 1241, 58 PUR NS 100, 65 S Ct 821.

The Pittsburgh, Canadian, and Panhandle Cases, *supra*, pose the question: Should the Commission be concerned with "fair field" price evidence in this case if it is not required to consider such evidence, has never considered it in the past and in fact has specifically rejected it as "conjectural and illusory?"[2] On the basis of those cases the answer must be negative.

As the Phillips Decision (1951) F.P.C. Opinion No. 217, Docket No. G–1148, 90 PUR NS 325, was in effect an enactment without congressional action, of the so-called Kerr Bill, S. 1498, vetoed at H. R. 1758, 81st Cong. 2d sess., H. Doc. No. 555, just so this interlocutory decision could be the forerunner to effecting the objectives of the prior and likewise unsuccessful so-called Moore-Rizley Bill, H.R. 4051, 80th Cong. 1st sess., at the final decision in this case. All that was said at the congressional hearings on those bills on the public side would apply here.

I must dissent from the majority action.

[2] Pittsburgh v. Pittsburgh & W. V. Gas Co. (1948) 7 FPC 112, 116, 76 PUR NS 65, 69.

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*IDAHO PUBLIC UTILITIES COMMISSION*

# Re Washington Water Power Company

Case No. U-1008-7, Order No. 2192
February 9, 1953

APPLICATION *for authority to increase electric rates; interim rate increase authorized.*

*Valuation, § 299.1 — Working capital allowance — Tax accruals.*

1. Working capital allowance should be deducted from an electric company's rate base where the accrued taxes, which are paid by the ratepayer, are larger than the amount required for working capital, p. 118.

*Valuation, § 36 — Rate base determination — Original cost.*

2. The Commission used the allocated original cost of an electric com-

pany's property in the state as a rate base, although it did not find or determine this to be an official rate base, p. 120.

*Rates, § 648 — Evidence — Test period.*

3. It has been the Commission's practice to use a past test period as actually booked and then adjust these results for all known factors that will affect the future operation, to test the reasonableness of electric rates, since increased rates can affect only a future period, p. 120.

*Return, § 87 — Electric company.*

4. An electric company was granted an interim rate increase to provide an earning ratio of 5.07 per cent on net investment in operating facilities, p. 121.

APPEARANCES: Alan G. Paine, Attorney at Law, Paine, Lowe & Coffin, Spokane, Washington; W. F. McNaughton, Attorney at Law, Coeur d'Alene; Carey H. Nixon, Attorney at Law, Boise, appearing on behalf of The Washington Water Power Company; W. B. McFarland, City Attorney, representing city of Coeur d'Alene, intervenor; Rulon E. Larsen, Utilities Auditor, Boise, appearing on behalf of the Commission; C. O. Sowder, Public Accountant, Coeur d'Alene, protestant; O. R. Shern, Coeur d'Alene, protestant; R. M. Schaefer, Jr., Lewiston, appearing for the Power Committee of Grange No. 300, Lewiston, Farmers' Union Local, Lewiston, and Idaho-Oregon Hells Canyon Association, protestant.

By the COMMISSION: On October 23, 1952, The Washington Water Power Company, hereinafter referred to as "applicant," filed with this Commission a proposed new Tariff IPUC No. 22, comprising its service rules and regulations, together with rate schedules applicable to service supplied on its interconnected system in nine counties in the northern part of the state of Idaho. These filings which contained schedules with increases in certain rates and charges applicable to various classes of service were accompanied by the applicant's petition that the proposed tariffs be made effective at an early date.

Pursuant to due and legal notice thereof, this matter came regularly on for hearing at 10:00 o'clock A.M., in the courtroom of the Kootenai county courthouse, Coeur d'Alene, Idaho, on December 16 and 17, 1952. Evidence, both oral and documentary, was adduced, and on December 17, 1952, the taking of evidence was concluded and the matter was submitted for decision.

After the hearing in this matter, but before a decision had been rendered, the applicant asked for and was granted permission to amend its IPUC Tariff No. 22, by substituting therein new Schedule No. 2 (Sheets 2 and 2a), Schedule No. 3 (Sheets 3 and 3a), Schedule No. 42 (Sheets 42 and 42a), and Schedule No. 43 (Sheets 43 and 43a). This amendment is to make certain technical changes in the schedules and also the changes in Schedules No. 2 and No. 3 reflect a downward revision in the amount of revenue under that requested in the original filing.

The Washington Water Power Company is a corporation organized and existing under the laws of the

state of Washington, and is duly qualified to do, and is doing, business in the state of Idaho as an electric public utility. It is an "electric corporation" and a "public utility" as these terms are defined in Chapter 1, Title 61, Idaho Code, and under the jurisdiction and regulatory authority of this Commission.

The applicant was until August 21, 1952, a wholly owned subsidiary of the American Power & Light Company. On August 21, 1952, the American Power & Light Company completed the distribution of its ownership in the common stock of The Washington Water Power Company to the shareholders of American, thereby divorcing the applicant from the control of American.

The applicant is engaged primarily in the generation, transmission, distribution, and sale of electric energy in thirteen counties of eastern and northeastern Washington, and nine counties of northern Idaho. The electric energy supplied by the applicant to its customers on the interconnected system in Idaho is generated by the applicant's own hydro plants in Idaho, supplemented by substantial amounts from its hydro plants in Washington, and by purchases from other sources. In addition to its primary business of furnishing electrical energy to its customers, the applicant owns and operates a water utility at Clarkston, Washington, and a central steam heat plant at Spokane, Washington.

Applicant's rates have been in effect in substantially the form contained in its present tariff since applicant's Tariff IPUC No. 20 was approved in April, 1944. Since that time, although rate reductions and minor revisions in schedules have been made, the relationship between schedules have remained substantially the same. Applicant's rates for service from its interconnected system in the state of Washington are the same as those at which service is supplied from its interconnected system in the state of Idaho. This application is the first time in the history of the applicant that it has requested an increase in its rates and charges; although there have been rate revisions, these revisions have all been downward, thereby indicating the applicant's ability to absorb increasing expenses and taxes through the increased loads and use of electrical energy. The revenue effect of the present application, it is estimated, will produce less than 50 per cent of the rate reductions made in 1940 and 1941.

Testimony and exhibits in evidence show that had the proposed schedules of electric rates been in effect in the state of Idaho for the twelve months ending August 31, 1952, customers of the applicant in Idaho would have paid to the applicant $274,251 in additional gross revenues. On the same basis, if the schedules that have been substituted for those originally included in IPUC No. 22, been in effect for the twelve months ending August 31, 1952, the customers of the applicant in Idaho would have paid an additional $233,249 in gross operating revenues, $41,000 less than the original application.

[1] In its exhibits and testimony, the applicant presented for the Commission's consideration the original cost of the property devoted to the public service, plus the amounts in the plant acquisition adjustment accounts

and working capital less the related reserves. These amounts were averaged, that is, the total amounts at the beginning and end of the period added together and divided by two, and are as follows:

| | System | Idaho |
|---|---|---|
| Electric Plant in Service | $74,654,649 | $25,696,850 |
| Plant Acquisition Adjustment | 3,181,919 | 518,035 |
| Working Capital | 1,581,797 | 537,336 |
| | $79,418,365 | $26,752,221 |
| Less: | | |
| Reserve for Property Retirement | $14,966,466 | $5,150,650 |
| Reserve for Plant Acq. Adj. | 1,745,930 | 284,237 |
| Contribution in Aid of Const. | 781,523 | 269,000 |
| Total Deductions | $17,493,919 | $5,703,895 |
| Net Investment | $61,924,446 | $21,048,326 |

In arriving at the above allocation of electric plant investment for Idaho, applicant's principal generating stations and major transmission lines are considered as an interconnected pool, and investment therein has been allocated or assigned to the states of Idaho and Washington on the basis of kilowatt-hour requirements of substations in each state. Other transmission lines, distribution lines, substations, and various items of general plant and other property, are assigned to states on other bases (such as number of customers and location of the property) related to the class of property invalued and the manner of its use as a functioning part of the interconnected system.

Electric plant in service is the original cost of the property presently being used to furnish service to the public.

Plant acquisition adjustment is the excess acquisition cost over original cost currently reflected in the accounts, and is set aside from the utility plant in service accounts in the accounting classification. The amount in this account is currently being amortized over a period from five to fifteen years and the amortization reserve is deducted from the gross investment in utility plant.

Working capital is based upon the 12-month average of the monthly averages of balances in Account 131, Materials and Supplies, to which is added an allowance for working cash equivalent to one-eighth of applicant's annual operating expenses, representing current operating expenses for approximately forty-five days, which applicant contends is necessary to meet current cash requirements, allowing for the time service is supplied in a given monthly billing period, meter reading, and billing procedure, and collection of bills. The record shows that as of August 31, 1952, the applicant had accrued taxes of all types in the amount of $4,534,743. These taxes are accrued monthly and are charged as an operating expense. It is apparent that the accrued taxes, which are paid by the ratepayer, are larger than the amount given for working capital; it is this Commission's opinion that to allow any working capital in the rate base would be unfair to the ratepayer. Therefore, we shall delete this item from our base.

At the time of the hearing of this proceeding, the applicant had under

construction a new hydroelectric project on the Clarks Fork river in Bonner county, Idaho. This project is known as the Cabinet Gorge plant and will have a total capacity of 200,000 kilowatts when completed in June of 1953. Although the project was not completed at the time of hearing on this matter, there were two of the four units in operation, and pro forma results were presented to give the total additional investment in property after completion of Cabinet Gorge. The applicant presented figures for the total investment in this project after completion and further considered depreciation expenses in pro forma operating results, but did not present any depreciation reserve on the project to be deducted from the investment. From Exhibit No. 11, we conclude that there should be deductions from the $18,674,800 of the total investment in this project assigned to the state of Idaho as accrued depreciation of $192,708, leaving a net amount of $18,492,092 to be added to the Idaho investment hereinbefore found to be $20,510,990 for a rate base of $38,993,082 to be used to test the reasonableness of the rates requested herein.

[2] Although the applicant presented exhibits and testimony as to the allocated original cost of its properties, it did not request a specific determination of an official rate base. It is the Commission's opinion that we must use some base to determine the reasonableness of the rates requested, and we will use the allocated original cost of the properties in Idaho as our base; we will not find or determine this as an official rate base.

For the twelve months ending August 31, 1952, applicant's net operating revenues, as recorded on its books, may be summarized as follows:

| | System | Idaho |
|---|---|---|
| Operating Revenues | $17,663,537 | $5,741,767 |
| Operating Revenue Deductions: | | |
| Operating Expenses | 7,163,020 | 2,331,874 |
| Property Retirement Expense | 1,174,750 | 398,316 |
| Taxes: Other Than Federal Income | 1,959,139 | 598,542 |
| Federal Income Taxes | 2,619,881 | 859,321 |
| Amortization of Plant Acq. Adj. | 218,855 | 35,630 |
| Total Deductions | $13,135,645 | 4,223,683 |
| Net Operating Revenue | $4,527,892 | 1,518,084 |

In the foregoing tabulation, operating revenues are determined by states in accordance with geographic origin, while operating expenses have been allocated on various bases (such as major power system basis, number of customers, direct distribution expense, etc.) applicable to the type of expenses under consideration.

[3] Various changes have occurred as have become known, which had they been in effect during the entire test period would have affected the operating results materially. Increased rates can only affect a future period, and it has been the practice of this Commission to use a past test period as actually booked and then adjust these results, for all known factors that will affect the future operation to test the reasonableness of the rates. In this proceeding the changes that will affect future operations are: increased energy sales that would have

been made if a labor strike had not occurred in the mining industry of North Idaho; increase in purchased power expense under median water conditions; increased wages granted to employees of the applicant; the effect of the Cabinet Gorge project in full operation in which both revenue and expenses will be affected. These adjustments have been calculated and the operating statement after these adjustments is as follows:

| | System | Idaho |
|---|---|---|
| Operating Revenues | $17,070,637 | $6,338,267 |
| Operating Revenue Deductions: | | |
| Operating Expenses | 6,699,370 | 2,141,024 |
| Retirement Expenses | 1,556,350 | 552,516 |
| Taxes: Other Than Federal Income | 2,409,039 | 789,042 |
| Federal Income | 2,813,186 | 955,639 |
| Amortization of Acq. Adjustment | 218,855 | 35,630 |
| Total Deductions | $13,696,800 | 4,473,851 |
| Net Operating Revenue | $3,373,837 | 1,864,416 |

By applying the adjusted net operating income to net plant investment, including Cabinet Gorge project, there is obtained the ratio of investment to income. This ratio for the state of Idaho after all known adjustments is 4.78 per cent.

[4] In this proceeding, the applicant did not present any testimony or exhibits on a fair rate of return on an official rate base, nor is it requesting such a return. The Commission can test the reasonableness of the proposed rates against the actual cost of the present capital structure of the applicant, and it is calculated as follows:

| | | | |
|---|---|---|---|
| Common Stock Equity: | | | |
| Capital Stock | $25,418,000 | | |
| Surplus | 11,370,748 | | |
| | $36,788,748 | 7.945% | 2,923,070 |
| Preferred Stock | 3,496,850 | 6.005% | 210,000 |
| First Mortgage Bonds | 19,080,000 | 3.5% | 667,800 |
| Bank Loans | 37,990,000 | 3.5% | 1,329,650 |
| Unamortized Premium on Debt | 210,067 | | |
| Discount on Capital Stock | (120,000) | | |
| Capital Stock Expense | (85,569) | | |
| Total | $97,360,096 | 5.27% | 5,130,520 |

In the above calculations the return on common equity and the preferred stock is the actual dividends paid for the twelve months ending August 31, 1952. We have assumed that the bank loans, that are due in June of 1953, will be replaced by bonds that will cost the same as those presently outstanding. As is shown from the above, the actual cost of the presently outstanding securities is 5.27 per cent.

The evidence shows that had the proposed new rates been in effect in Idaho for the year ending August 31, 1953, there would have resulted an increase in annual revenues to the applicant of $274,251, based upon its business in Idaho for that period. Based upon the same period and using the schedules that have been substituted for those schedules contained in the application, the annual increase in revenue will be $233,249, of this amount, it is estimated that more than

half, or $120,000 will go for Federal income taxes. Adjusting the pro forma income statement to reflect the increased revenues, there is then shown a net operating revenue of $1,977,665; the ratio of this amount to the net original cost of the property as previously allocated to the state of Idaho is 5.07 per cent; this ratio is below the actual cost of the present capital structure to the applicant.

The cost of providing a return on the applicant's investment and facilities, as well as the cost of operating and maintaining its property, both old and new, can only be obtained through the rates which the applicant collects from its service. Due to the deterioration in the purchasing power of the dollar, more dollars must be spent to provide the service for which a given item of cost is required, and electric rates must eventually be increased to meet these increased costs.

In this proceeding, the applicant has not asked for a specific determination of an official rate base; it is the opinion of this Commission that it is not required at this time in this proceeding to make such a determination either on original cost or any other basis. Neither did the applicant request that the Commission enter a finding as to a fair return on any basis that might have been determined in this matter; we have heretofore determined that the rate schedule in the proposed tariffs, including the substitute schedules, based on the pro forma estimates, will provide the applicant with an earning ratio of 5.07 per cent on its net investment in operating facilities including the Cabinet Gorge project.

This Commission has reached its conclusions and determinations in this matter from the evidence submitted; some is on an actual basis and much of it on a pro forma basis, looking to the future. It is our opinion that this record should remain open and the rates provided herein be on an interim basis, until such time that there is a period when actual operations, revenues, expenses, and investment can be checked against the applicant's presentations in this proceeding. When this has been accomplished, the Commission will review the entire record in the light of the actual operations at that time and will then issue a final order in this matter.

Upon consideration of the entire record herein, including the evidence and financial exhibits submitted in this proceeding, the Commission makes the following findings and order.

*Findings*

I

The Washington Water Power Company is a corporation, organized and existing under the laws of the state of Washington, and is duly qualified to do and is doing business in the state of Idaho as an electric public utility. It is an "electric corporation" and a "public utility," as these terms are defined in Chapter 1, Title 61, Idaho Code, and under the jurisdiction and regulatory authority of this Commission.

II

That the substituting of revised Schedules Nos. 2, 3, 42, and 43 of IPUC Tariff No. 22, should be and the same are hereby accepted.

III

That for the purpose of this order

the net investment in operating facilities of the applicant, taken at the original cost is $20,510,990 before Cabinet Gorge, and $38,993,082 after Cabinet Gorge.

IV

That the applicant will have an adjusted pro forma net operating revenue of $1,864,416 in Idaho before considering the increased revenue from the rates here applied for which is a ratio of 4.78 per cent of the net investment.

V

That the applicant will have an adjusted pro forma net operating revenue of $1,976,665 in Idaho after considering the increased revenues from the rates here applied for which is a ratio of 5.07 per cent of net investment.

VI

That the applied for rates will produce an annual increase in revenue based on the customers bill analysis of October, 1952, in the amount of $233,249, and that of this amount $120,000 will be paid in additional Federal income taxes.

VII

That the proposed rates will not produce a return on the net investment in operating facilities of the applicant after Cabinet Gorge that we deem to be excessive.

VIII

That the record in this proceeding shall remain open until such time that the pro forma results of operations can be proven from actual operations.

IX

That based upon the foregoing, the rates and charges contained in applicant's proposed tariffs are reasonable and nondiscriminatory.

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*NEW MEXICO PUBLIC SERVICE COMMISSION*

# Re Lea County Gas Company

Case No. 388
February 25, 1953

APPLICATION *by natural gas company for authority to increase rates; rate increase authorized.*

*Rates, § 198 — Unit for rate making — Interstate utility.*

1. The Commission, in estimating the revenue needs of a natural gas company operating in two states, may consider the company operations as a whole, although its authority to fix rates is limited to its own state, p. 127.

*Return, § 101 — Natural gas company.*

2. A return of 6.64 per cent was considered necessary to maintain a natural

gas company in a sound financial condition and to enable it to attract additional capital on reasonable terms, p. 128.

By the COMMISSION: Lea County Gas Company, a Delaware corporation (hereinafter referred to as company), and a public utility within the meaning of the Public Utility Act, Chap 84, Laws of 1941, filed an appropriate petition with the Commission on January 29, 1953, in which petitioner seeks the requisite authority and approval of this Commission to place in effect new rate schedules in the Silver City district, town of Silver City, village of Bayard, Central, North Hurley, Hurley, and all main line taps in Grant, Luna, and Hidalgo counties, New Mexico, and within the Anthony district, town of Anthony, and in all service areas in Dona Ana county, New Mexico, which new rates will provide for an increase of 5.73 per cent in natural gas service charges for residential consumers and 10.39 per cent for commercial and industrial consumers, said increases in natural gas rates to provide approximately $12,001.30 additional annual revenues from residential consumers, $13,637.46 from commercial and industrial consumers, and $3,247.72 from special contract consumers, or a total of $28,886.48 from their New Mexico operations.

Pursuant to appropriate notice, formal public hearing was held on Lea County Gas Company's petition on February 19, 1953, in the Commission's office, State Capitol building, Santa Fe, New Mexico.

The petition of Lea County Gas Company is predicated solely on what the company contends is necessary to cover increases in natural gas rates imposed upon the company by El Paso Natural Gas Company as of January 1, 1953, as a result of new rates filed by El Paso Natural Gas Company with the Federal Power Commission, which rates were authorized under bond until the matter is disposed of by the Federal Power Commission after formal hearing. The company is absorbing approximately $875.24 of the increase in gas service costs and $14,574.64 of additional operating costs.

Petitioner further contends that after adjustment of increased gas costs and other operating expenses, their rate of return for the test period December 1, 1951, to November 30, 1952, is 6.64 per cent and any return less than this would not permit the company to maintain its financial stability and integrity.

The petition also states that the 4-cent per thousand cubic feet additional cost petitioner is paying for gas purchased from El Paso Natural Gas Company is not being passed on to residential, commercial, and industrial consumers on minimum bills as the company is absorbing this increase. The increase only applies to gas sold to consumers in excess of the minimum bill.

The Commission received one notice of protest in the above-entitled matter from the mayor of the town of Silver City, in which the Commission was requested to require exact and definite proof from petitioner to show beyond a reasonable doubt that the increase in rates was necessary to provide adequate service and show a fair rate of return on petitioner's in-

vestment. The notice of protest was made a matter of record in the instant hearing and given appropriate consideration by the Commission in its findings and conclusions in disposing of this matter which is covered in the order following.

Appearing on behalf of petitioner, Calvert C. Tucker, President, Dan L. Hill, Vice President, and James King, District Manager, Silver City district; appearing for consumers, Robert E. Fox, Consumers' Counsel; appearing on behalf of the Commission, Richard H. Robinson, Attorney General, E. F. Carter, Chief of Operations, and E. S. Quinlan, Accountant-Engineer.

Lea County Gas Company presented two witnesses in support of their petition. Calvert C. Tucker, president, made a general statement regarding the need for additional revenues to offset the increase of $29,761.72 in natural gas costs imposed upon the company by El Paso Natural Gas Company on January 1, 1953, when El Paso Natural Gas Company was authorized by the Federal Power Commission to increase its wholesale rate for gas sold to petitioner by 4 cents per thousand cubic feet.

Testimony was presented to the effect that the 4-cent increase in the price of gas would not be applied to minimum bill consumers in all classes of service. The 4-cent increase applies on all gas consumed by residential consumers in excess of minimum charges and to commercial and industrial consumers using in excess of 100,000 cubic feet.

New rate schedules filed with the Commission provide for reducing the minimum charge for commercial and industrial consumers from $20 to $3 and correspondingly reduced the quantity of gas to be delivered under the new minimum charge from 40,000 cubic feet to 3,000 cubic feet, with a reduction of 2 cents per thousand cubic feet over present rates above the minimum charge for the next 47,000 cubic feet and 6 cents reduction per thousand cubic feet for the next 50,000 cubic feet.

Commercial consumers previously served under the residential schedule, not able to qualify under the $20 minimum charge previously applied, will be served under the new commercial and industrial schedule with a $3 minimum charge for 3,000 cubic feet, to eliminate discrimination between the same classes of customers.

Dan L. Hill, vice president, presented testimony including exhibits in support thereof, relating to the company's operations for the period December 1, 1951, to November 30, 1952, showing revenues received from present rates for residential service amounting to $209,490.74 and from commercial and industrial consumers amounting to $131,260.82. After applying the new rates recommended, residential consumers will produce $221,492.04 and commercial and industrial consumers will produce $144,898.28, or a total increase in operating revenues of $25,638.76. Residential consumers will be increased 5.73 per cent and commercial and industrial consumers 10.39 per cent.

In addition to the increase applicable to residential, commercial and industrial consumers, increase was authorized for special contract consumers on an annual basis in the amount of

$3,247.72 prior to the instant hearing.

Operating expenses excluding gas purchases for the test period December 1, 1951, to November 30, 1952, amounted to $107,010.68. Salary increases during the 12-month period including increases in salaries effective January 1, 1953, and salaries held in suspense until November 30, 1952, require an adjustment of operating expenses to give effect to operating conditions during the test period in the amount of $14,574.64, in order to reflect the conditions the company will be confronted with during 1953. Gas purchases for the test period amounted to $153,247.92. Increase in expenses due to increase in gas service costs charged by El Paso Natural Gas Company, when applied to the year 1953, amounts to $29,761.72. After giving effect to increased operating expenses the company is confronted with during 1953, the adjusted operating expenses amount to $304,594.96 and net increase in operating costs of $40,207.71, of which $29,761.62 is due to the increase in cost of gas and the remainder due to increased salaries.

Gas Plant and Property in Service November 30, 1952, Original Cost undepreciated, amounted to $566,799.43.

Accrued Depreciation Reserve as reflected by the books of the company November 30, 1952, amounts to $124,293.60, and Contributions in Aid of Construction, $4,496.89.

Deducting Accrued Reserve for Depreciation and Contributions in Aid of Construction from the gross amount of undepreciated Plant and Property as of November 30, 1952, leaves net Plant and Property in Service of $438,008.94.

To this amount the following items are added to arrive at a value for rate base:

Allowance for Reproduction Cost New, $26,088.07, which amount is derived by taking 5 per cent of Gross Plant Original Cost in Service November 30, 1951.

Working Capital made up of one-eighth of the adjusted annual operating expenses for the test period, exclusive of gas purchases, amounts to $15,198.17.

Gas purchases in the amount of $3,050.22 is derived by taking 20 per cent of one-twelfth of the adjusted gas purchase costs for the test period.

Petty Cash in the amount of $1,000 is allowed for the payment of small bills not to be paid by check, and for making change in the payment of customers' bills.

Material and Supplies in the amount of $6,158.44 is the amount reflected by the company's books as supplies on hand November 30, 1952.

Prepayments in the amount of $2,728.42 is the balance reflected by the company's books November 30, 1952, in the nature of prepaid insurance and prepaid taxes.

By adding the foregoing items to net Plant and Property in Service November 30, 1952, of $438,008.94, we arrive at a rate base of $492,232.26, which is $74,567.17 less than the original cost of the property.

Adjusted operating revenues for the test period amount to $393,367.75.

Adjusted operating revenue deductions for the test period, amounting to $360,660.50, is made up of the following items:

| | |
|---|---|
| Adjusted operating expenses ..... | $304,594.96 |
| Depreciation ..... | 19,165.18 |
| Taxes other than Federal income | 10,444.54 |
| Federal income taxes ..... | 26,455.82 |

Deducting total adjusted operating revenue deductions in the amount of $360,660.50 from the total adjusted operating revenue of $393,367.75 leaves net operating revenue of $32,-707.25, or rate of return of 6.64 per cent.

The Commission is of the opinion that from the testimony and evidence submitted in the instant case, petitioner's present gas service rates are inadequate to meet the required needs of the company to cover increased costs of gas purchases and other increased operating costs to maintain its financial integrity in inviting new capital to finance further extensions and improvements if it is to provide adequate and efficient service at just and reasonable rates.

[1] The company, in presenting its case, has dealt with its operations in New Mexico and has advised the Commission that similar rate increases have been presented to governing authorities in the state of Texas and that approval has been received for comparable rate increases in the service areas they supply natural gas service in Texas communities.

The Commission's authority to fix rates for natural gas service is limited to the state of New Mexico. This does not mean, however, that the Commission must blind itself to the operations of the company as a whole in appraising its revenue needs. From such appraisal, the Commission can prescribe rates which will equitably apportion any needed increase in New Mexico to customers of the company. As indicated by the foregoing discussion, this has been successfully done since the effective date of the Public Utility Act, and there is no apparent reason why the same process will not work equally as well in the instant case. To depart from this proven practical method, and not to rely upon a system-wide cost study with all of its necessary assumptions and inherent uncertainties as to accuracies, in the opinion of the Commission, would be a backward step in the regulatory process and would result in needless delay and expense without providing any assurance that the over-all results obtained would be equitable to the company or consumers as a whole. The Commission believes that this type of co-operative procedure is conducive to effective regulation, and consequently of greater benefit to the public. There is no doubt that the operation of the company's facilities on an integrated basis in serving the areas developed in Texas and New Mexico is more economical than furnishing this service to each area by separate, independent operating organizations. In the opinion of the Commission, it follows that effective and equitable regulation requires consideration of system operation.

The Commission, after reviewing all of the testimony and evidence entered in the record, is of the opinion and so concludes that the adjustment of rates is necessary to provide additional revenues from gas service operations to cover increased costs of gas purchases and increases in other operating costs.

In the interest of convenience, the findings and conclusions set forth are summarized below.

The Commission finds and concludes:

1. That for the purpose of this proceeding, the rate base of $492,232.26, as reflected by petitioner's Exhibit B attached to and made a part of petitioner's petition, constitutes a fair and reasonable estimate of the base upon which to calculate the return to Lea County Gas Company for the test period December 1, 1951, to November 30, 1952;

2. That for the purpose of this proceeding, the adjusted operating revenues in the amount of $393,367.75 constitute a fair and reasonable estimate of the revenues to be received after applying the new rates to the gas consumption of residential, commercial, and industrial consumers during the test period;

3. That for the purpose of this proceeding, the total adjusted operating revenue deductions, in the amount of $360,660.50, constitute a fair and reasonable estimate of the adjusted operating expenses and Federal income taxes, after applying the increased costs of gas charged by El Paso Natural Gas Company and the adjustment of Federal income taxes after adjusting operating revenues and expenses for the test period;

[2] 4. That for the purpose of this proceeding, the adjusted net operating income of $32,707.25 from gas operations in New Mexico for the test period December 1, 1951, to November 30, 1952, after giving effect to the new rates recommended, constitutes a reasonable estimate of the return to the company from its operations during this test period; and the $32,707.25 represents a return of 6.64 per cent and that such return is necessary to maintain the company in a sound financial condition to enable it to attract additional capital on reasonable terms and, in the opinion of the Commission, is not an excessive return;

5. The Commission, in its findings and order, does not necessarily approve of or endorse the policies or statements made by the petitioner in evidence quoted in this order, but bases its findings on the factual information available.

# Industrial Progress

*A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.*

## Electric Utilities to Increase Capacity 50% in Four Years

THE country's electric utilities plan to install nearly 14 million kilowatts of generating capability this year at a cost of around $4 billion, according to a survey by the Edison Electric Institute. That would boost national capacity by over 17%.

In the four years 1953-56, over $12 billion is scheduled to be spent to boost the country's capacity to about 125 million kilowatts, an increase of more than 50% since the end of 1952, and almost two and a half times the capacity at the close of World War II. This huge buildup is designed to give the country a comfortable reserve to meet any emergency.

Among recent statements of electric utility expansion plans may be noted the following:

Philip Sporn, president of the American Gas & Electric Company is reported as stating that A. G. & E. is spending $127,000,000 this year as part of its program to install over 600,000 kilowatts of generating capacity, an increase of almost 25%. Within the next 10 years, Mr. Sporn foresees doubling the system's facilities and investing another $1 billion in them.

The Pacific Gas & Electric Company figures its 1953 construction budget will at least reach the $162,000,000 it spent last year and may exceed it, according to N. R. Sutherland, vice president and general manager. PG&E early this year passed the $1 billion mark in its postwar expansion expenditures.

Companies of the Southern Company system plan to spend $100,000,000 this year for generating equipment and power lines, an outlay which will increase the system's capacity nearly 20%.

Texas Utilities Company estimates it will spend close to $70,000,000 this year, putting in 330,000 kilowatts of new capacity for a 30% boost from last year.

Niagara Mohawk Power Corporation plans a 300,000-kilowatt expansion this year, which will add some 15% to the company's generating ability.

## New Manual on Demand Meters Announced by G-E

A NEW 48-page manual on demand metering has been announced as available from the General Electric Company, Schenectady 5, New York.

The well-illustrated publication, GET-2327 describes in detail the theory, economics, operation, and application of demand meters. It provides an excellent summary of the principles and problems of demand metering; a reference for helping in specific demand-measuring application; and a clear, simple textbook for students and trainees.

Rather than emphasize the details of meter construction, installation, or maintenance, the manual serves as a centralized source of basic information on demand metering, information until now available only from multiple sources.

## Relf Highlights Interdependence of Coal and Electricity in U. S.

COAL'S large place in electric power generation—now and in the future—was highlighted by Richard Relf, chairman of the board and president, North Western Hanna Fuel Company, when he addressed the recent annual meeting of the Conference of State Utility Commission Engineers, a national organization.

Citing the interdependence of coal and electricity and pointing out that of the three fuels —coal, natural gas, and fuel oil—used in electric power generation last year two-thirds was coal, Mr. Relf emphasized that "major problems of one industry automatically become the problems of the other."

"One out of every five tons of coal we dig out of the ground," he said, "eventually is burned to produce elctric power. That means the electric industry is our largest single customer.

"The picture isn't complete, however, without pointing out that producers of electricity are just as dependent upon those of us in the coal business as we are on them. Electric utilities would not put out the money to buy more than 100 million tons of coal each year unless they were satisfied that for most purposes coal is the best and cheapest fuel for them to depend upon for year around firing of their steam generating plants."

Speaking of the immediate future market for coal in the utility field, Mr. Relf said, "Dull and common and cheap as coal is, it still is the fuel choice for some two-thirds of the new plants private utilities have built since Korea

(*Continued on page 26*)

or are planning to build in the immediate future. These are the most modern plants in existence, built by private enterprise to satisfy at least partially the insatiable power demands of an expanding civilian economy and a large-scale mobilization program. I stress the word 'modern.' Electric utilities are investing huge sums of money with the expectation that coal is here to stay."

Mr. Relf then reported that a reliable survey showed a contemplated 45-million-ton increase in electric utility coal requirements by 1956. He also cited predictions from several sources, including officials of Pittsburgh Consolidation Coal Company and the President's Materials Policy Commission (Paley Report), indicating that the electric utilities would require 350 million tons of coal annually by 1975 and that total coal consumption in the United States would reach 800 million tons per year in the next quarter century.



## Glynn L. Coryell Joins NCA Engineering Staff

TOM PICKETT, executive vice president of National Coal Association, has announced the appointment of Glynn L. Coryell to the National's staff for service in the Engineering Department and to assist in the increasing activities in the field of fuel engineering and coal-fired steam plant design.

## National Mailing Service

MAILING SERVICE, INC., 4017 Ludlow street, Philadelphia, announces the extension of its mechanized inserting and mailing service nationally, through branches in Chicago, New York, San Francisco, Kansas City, Denver, Minneapolis and other principal cities throughout the country. This service, said to be the only one of its kind on a nationwide basis, speeds the mailing process through complete mechanization of each operation.

According to Mailing Service, Inc., use of

(*Continued on page 28*)

machines makes it possible to process large-scale mailings and include any number of inserts to an envelope, resulting in considerable savings in time as well as costs.

## Cleveland Trencher Issues New Bulletin on Model 110 Trencher

A 2-COLOR, 8-page catalog-type bulletin on the Cleveland Model 110 trencher has been published by The Cleveland Trencher Company. A rugged, compact, highly productive trencher the Model 110 is a performance-proved machine capable of digging all types of trench from 12 to 24 inches wide and up to 5½ feet deep.

The new bulletin particularly features the wide versatility of the Model 110. Numerous job applications within the trench size range of the 110 are illustrated. Cleveland design and construction features are described in the center spread which also contains a numbered outline photograph showing position of important parts.

Action photographs from all types of trenching jobs demonstrate the all-around usability of the Model 110. Back cover gives complete dimensions and specifications, including a table of optional bucket sizes showing both standard and maximum cutting widths for each option.

Copies of the Cleveland Model 110 Bulletin (No. S-116) may be obtained by writing on business stationery to the Cleveland Trencher Co., 20100 St. Clair avenue, Cleveland 17, Ohio.



## Westinghouse Steam and Gas Turbine Development Laboratory

CONSTRUCTION is progressing on the Westinghouse Electric Corporation's $6,000,000 steam and gas turbine research and development laboratory at South Philadelphia, Pa.

Under present schedules, the building will be completed this fall, and will be fitted and ready for use in the summer of 1954.

# Are you taking advantage of SPECIALIZED DESIGN

## to meet your changed transportation problems?

*Left*—This Model 3016 White maneuvers closer to job site ... saves time in transit ... adds new safety features for Northern States Power Co., Minneapolis, Minn.


—This Model 3020 White ed by Winnipeg Electric Winnipeg, Manitoba, quipped with workshop y and winch. Its maneu- ability saves time for crew ... gets work done er.

**ORED** to your exact work, the White 3000 aces your transportation cost ... does more k every day in your service.

oday's heavy traffic and congestion and er exacting operating conditions mean trucks should be engineered to your own vice needs—with new maneuverability, ra carrying capacity, quicker loading, ed safety features, and driving ease.

You have all these—and more—in the hite 3000. See your White Representative facts about the extra economy of White ecialized Design.


*Tips its cab to service*

**WHITE MOTOR COMPANY** • *Cleveland 1, Ohio*

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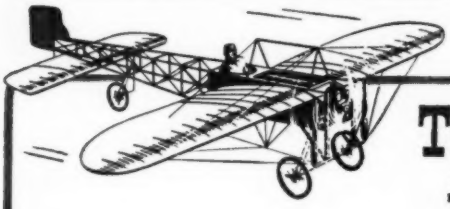
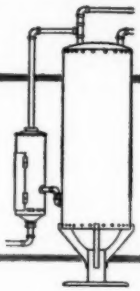
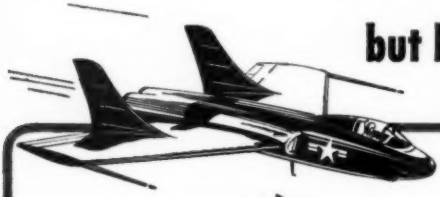


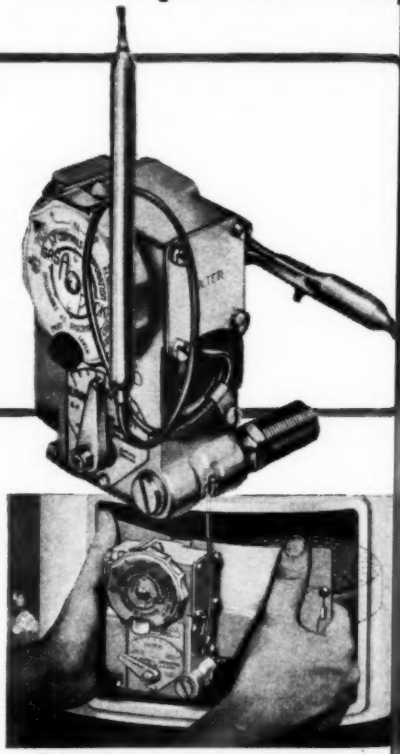
# Tops back in 1909



## but here's what you want today



# Gasapack
## Water Heater Control



COMPARE this modern A-P Model 50 Gasapack with many of today's old-fashioned methods of gas water heater control. You'll see the difference in simplicity, space-saving, reduced assembly and service costs.

All necessary controls — main and pilot cocks, pilot filter, 100% automatic shut-off safety pilot, automatic main valve — are combined in one fully automatic unit that provides close, even water temperatures. It's suitable for use with all gases . . . manufactured, natural or L-P. What's more, the temperature sensitive contact type thermo-bulb eliminates a spud fitting. That means no leakage, no danger of water entering gas line or gas mixing with water. No wonder users say it's the greatest automatic control for water heaters ever offered.

For better product performance, more customer satisfaction . . . yes, more profits . . . get all the facts about this trouble-proof A-P control valve. Write for bulletin G18.



Model 50 Gasapack can be mounted integrally with the burner so that the complete assembly can be installed or removed for service as one single unit.

# A-P CONTROLS CORPORATION

DEPENDABLE Controls

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*In Canada:* A-P Controls Corporation, Ltd., Cooksville, Ontario

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*(Professional Directory Continued on Next Page)*

## PROFESSIONAL DIRECTORY *(continued)*

## PROFESSIONAL DIRECTORY *(continued)*



*(Professional Directory Continued on Next Page)*

## PROFESSIONAL DIRECTORY *(continued)*

## PROFESSIONAL DIRECTORY *(concluded)*

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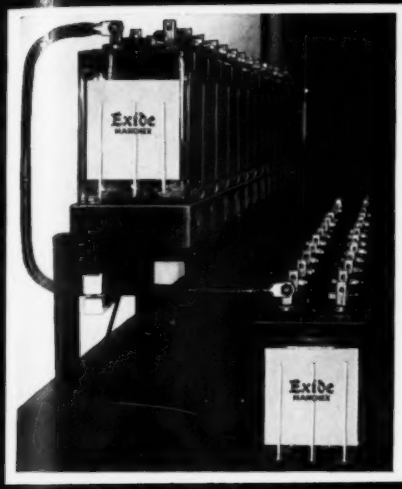
Georgia Power Company Plants use

# Exide-Manchex

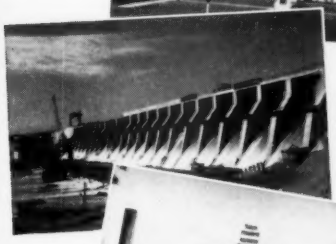
## BATTERIES




A typical Exide-Manchex installation.

PLANT YATES

PLANT MITCHELL



PLANT SINCLAIR DAM

PLANT McMANUS

Here are four generating plants of the Georgia Power Company that are equipped with Exide-Manchex batteries.

Plant Yates works twenty-four hours a day, seven days a week. Each of its three generators has a capacity of 100,000 kilowatts. Plant Mitchell has a possible total capacity of 125,000 kilowatts . . . the Sinclair Dam plant, located on the Oconee River, will produce 45,000 kilowatts . . . and Plant McManus is designed for ultimate expansion to four steam-electric generating units of 40,000 kilowatts each.

In addition, Georgia Power Company will soon complete a 300,000 kilowatt capacity steam-electric plant, Plant Hammond, on the Coosa River near Rome. A 60 FME-21 Exide-Manchex battery will be installed.

**EXIDE-MANCHEX BATTERIES ARE PREFERRED BY MANY UTILITIES BECAUSE THEY ASSURE:**

**POSITIVE OPERATION:** Dependable performance at ample voltage with no switchgear failures.

**INSTANTANEOUS POWER:** High rates for switchgear operation with adequate reserve power for all other control circuits and for emergency lighting.

**LOW OPERATING COST:** Extremely low internal resistance.

**LOW MAINTENANCE COST:** Water required about twice a year. No change of chemical solution during life of battery.

**LOW DEPRECIATION:** Sturdy, long-life construction.

**GREATER CAPACITY** in a given amount of space avoids overcrowding.

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Various sizes and types of Exide Batteries are available in plastic containers.

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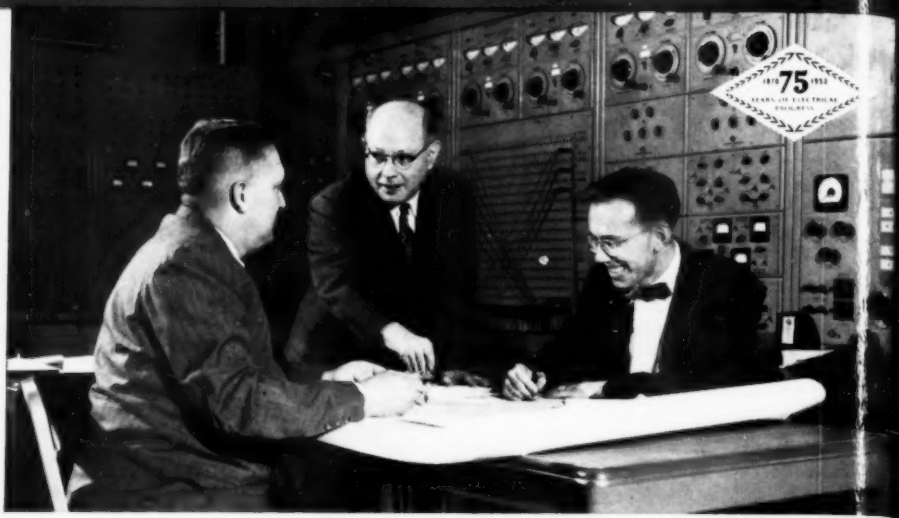
"EXIDE" and "MANCHEX" Reg. T.M. U.S. Pat. Off.



**Basic tool for all transmission studies,** the network analyzer, provides necessary circuit loading information to be used in digital calculations. S. B. Crary, Manager, Analytical Engineering, checks results with G. Kron and Dr. L. K. Kirchmayer, developers of the new loss formulas.

## Transmission loss studies can mean

# NEW ECONOMIES IN SYSTEM LOADING

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Worthwhile savings result from economic loading in system operation. By following the recommendations of transmission loss studies, load dispatchers and designers can achieve the most economic system loading. These studies involve a new concept in network mathematics, using the network analyzer, tensor analysis, and digital computer calculations.

General Electric engineers are constantly making developments on all phases of power systems engineering—from product advances to over-all system economy studies. More detailed information is available by writing for "Loss Formulas Made Easy." Write to Section 301-228E, General Electric Co., Schenectady, New York.

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